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10 June 1982



# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

No. 2279

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PROBLEMS OF CEMA COOPERATION EXAMINED

Budapest KOZGAZDASAGI SZEMLE in Hungarian No 4, Apr 82 pp 385-403

[Article by Rezso Nyers, Member of the Central Committee: "Tradition and Improvement in CEMA Cooperation"]

[Text] CEMA has always been important to the socialist countries, and today it is twice as important. Our national economies are facing two great problem complexes: the new and high requirements of intensive economic development, and the effect of the change that has occurred in the world economic situation. Both are related in a certain way with CEMA. It is, therefore, important for us to clarify what achievements we should regard as worth protecting and where we should innovate, and how in order to make our unity more effective.\* When we recall the past quarter-century of dynamic economic development, we may acknowledge that economic life of that time was not without its lesser or

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\*The article was prepared on the basis of a study VIEWS AND DEBATES ON SOCIALIST INTEGRATION to be published by Kossuth Konyvkiado in 1982.

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greater tensions, its unexpected obstacles, and the social problems stemming from these. But still the pointer tipped in favor of development. Since the middle of the 1970's, however, we have been living in a period of recession in the nonsocialist world economy and of structural changes. The economic graphs show a break in the former growth trend, and we cannot tell for certain what they will show in coming years. Problems now weigh in the heavier scale of the balance, and they spill across national boundaries and even across the dividing line between the two social systems.

Nowadays the socialist economy requires, on one hand, the performance of new economic tasks and, on the other hand, creates different social influences, which for the time being irritate social reflexes that were earlier developed. All this requires a better coordination of economic and political points of view, and not only this but also an unbiased economic-political analysis which strives to understand the new situation, first of all in national economic parameters and then in international cooperation. Even with a communist commitment it is possible, in fact desirable, that analyses should be prepared by taking various points of view into account and by proceeding from various assumptions. The following represent a possible viewpoint and thought process.

The socialist national economies united in CEMA represent a characteristically special region and an international market. Nevertheless, they have a place within the world market as a whole, and they are not closed economies but are linked with other areas of the world. They themselves exert influence externally, and they are exposed to outside influences, which are at times favorable and at times unfavorable, right now more the latter. Even if the unfavorable influences are greater than desired, the relationship itself is by no means unfavorable, and if we were to restrict the relations the unfavorable effects would be strengthened. It should be emphasized that the other areas of the world economy do not merely represent a passive external environment for the CEMA countries, where we can shape our relations and methods as we please. The other areas of the world economy represent to us much more than this. They have an active role, to varying degrees, in realizing certain conditions of socialist economic development, chiefly foreign trade and technical.

In no way would it be correct to see in the confrontation of the social systems a complete separation of the world economy and the world market. Although the divergences between the different social systems are basic and of an ideological nature and confrontational on the field of social development, economy and trade shape and mediate a work distribution of world dimensions. It is a link which creates the condition of mutual dependence, and this is one of the encouraging facts from the aspect of man's future. This is exactly why our countries cannot turn their back on other large areas of the world economy. Even if we wanted to, we do not have the possibility, but we cannot desire this from the viewpoint of our own interests. When we research the development of CEMA cooperation, we must regard the improvement and development of our nonsocialist relations as organically a part of our subject. We cannot regard it as a subject of secondary importance.

CEMA has a 32-year-old past. It has become indispensable for the national economies concerned, and thus its future is assured. In this way, the cooperation is a positive tradition, which must be guarded and continued. But as life moves ahead, economic needs and possibilities change, sooner or later a good tradition, or its unchanged continuation, is no longer sufficient; the old methods and institutions must be alloyed with new solutions. To speak symbolically, the positive tradition itself must move ahead on the highway of development in order that it may remain progressive and useful. I believe that this generalization is valid for socialist economies and, of course, for CEMA.

In addition to guarding the earlier achievements, therefore, there is an urgent need for the critical approach in the Marxist spirit both in the existing economy of socialism and socialist international economic cooperation. If from the aspect of concrete socialist relations we were to see defense onesidedly or excessively as our task, or if we were to abandon a critical taking of position, we could hardly call ourselves Marxists. We must defend and judge socialism at one and the same time in order that we may further develop the whole of society, in this case international economic cooperation.

## The Theoretical Bases and Development Characteristics of Cooperation

The shaping and development of the CEMA cooperation system is reflected in three basic documents. The first is the "CEMA basic document" approved when the organization was formed in 1949 and which is in effect down to today. The second is the position which was approved in 1962 in "The Basic Principles of Socialist International Work Distribution," which did not modify the preceding document but emphasized international specialization and cooperation. The third is "The Complex Program Designed to Deepen Cooperation and the Development of Socialist Economic Integration," which does not invalidate the foregoing documents but conceptually develops cooperation over the long term, perhaps we may say for the foreseeable future, while in the two later documents the intention of a substantive renovation of cooperation is reflected.

Let us review in outline how the basic principles, the main goals and methods were conceived in the three succeeding points of time! This will make clear where there is continuity and where a change of direction occurred.

In the question regarding the relations of the cooperating national economies and the community as a whole the basic principles are the same from beginning to end, continuity is realized to the full extent. All three documents emphasize the independence of the national economies, state sovereignty, the principle of full equality, and in fact the Complex Program is supplemented with the doctrine of noninterference in one another's internal affairs. This means that the party and government of every country decides on its own economic policy and on the economic plan and the method of economic management, while community action serves to promote nation state goals, that is, there is no level above the national for economic policy. In respect to method, the Complex Program goes beyond the previous two documents when it declares the necessity of mutual consultations on basic political questions, but this method also is in harmony with the previous principles. All three documents, but especially the Complex Program, emphasize the principle of interest in cooperation. The member countries participate in a specific cooperation activity on the basis of interest, or do not participate on basis of a lack of interest.

In setting economic goals, the member countries implemented changes that became necessary in the course of development; these changes showed at times only in a shift of emphasis but at times in the undertaking of new tasks. In 1949, the promotion of industrialization and the development of industry and the increase of efficiency was emphasized. The direction for the development of international production specialization and cooperation and related thereto the working out of CEMA standards were given a start in 1962. International work distribution was built on the basis of complexity, and that specialization must be realized in the distribution of products. The realization of combined CEMA planning was conceived in 1971 in certain industrial branches and product types as a cooperation task. Justifiably, increasing importance is given among cooperation goals to technical development in industry, economic efficiency and the direction of production specialization and cooperation. But realization of the goal is problematical from various points of view, because the pace is slow and the necessary capital means system is lacking.

In respect to the role and importance of the economic branches, a gradual change is reflected in the documents. In the course of development, industrial centralism declined somewhat. With the passage of time, agriculture was, and is, given more and more importance in the international documents as a sign of the fact that in the exercise of socialist management these represent a less successful area in most of the countries. The role and importance of the international infrastructure is also increasing in CEMA relations, including transportation, commodity delivery, hydraulic relationships, news service, and tourist traffic. In the first document there was nothing about the latter areas, little in the second but in the third they were given a relatively important role, although still not an adequate one. In 1962, but even more in 1971, a special place was given to the coordinated development of metallurgy and petrochemistry. The emphasis on the above areas is in fact correct and justified, but their driving force is weakened by the fact that very many more cooperation subjects are at the international level within CEMA. Thus the tasks at this level become fragmented, and amid the many smaller goals and tasks, some of the actually big goals are sacrificed to the burgeoning of goals and tasks. This problem derives, to a certain degree, from the strongly (apparently excessively) sub-branch management of the member countries, primarily the Soviet Union, from the fact that scarcely anything has happened in the development of the greater national economic aggregates (energy complex, food economy, and other production-processing-marketing verticals) although the position taken in 1962 recommended the development of such national economic complexes.

The maintenance of relations with countries outside of CEMA was given a role in all three documents, and with the passage of time to a greater extent. This was true, however, only at the level of a theoretical goal, but there was insufficient attention in the institutional system, in the economic methods, and in actual operations. In 1949, the member countries only expressed their readiness to develop outside relations. In 1962, they proclaimed that they were organizing socialist international work distribution by taking into account world-scale work distribution, and with this they desired to strengthen the material basis of peaceful coexistence. In 1971, they expressed a similar effort in giving greater emphasis to the development of relations with developing countries. They raised the idea of coordinating the foreign economic policies of the member countries in order to normalize international commercial-economic relations, and eliminate existing discrimination. Finally, we can establish a correct continuity in the basic principles, but in practice the effort at seeking "an opening outward" or at "inward turning" is a fluctuating one in the member countries. At the community level it is not possible to discover the characteristics of a well worked out, long term attitude. Thus in this respect it would not be adequate if we regarded it as our task merely to follow tradition.

In respect to the capital means of cooperation a basic role has been given in the resolutions from beginning to end, and in practice, to planning methods and internationally to plan coordination. This is natural and correct, but very striking is the danger of a narrow, onesided plan interpretation. The concept reflected in the plan and the planning documents has guarded the nature of the tradition, that is, the planning of natural use values, where

financial evaluation serves only to express the various use values as a combined value. With such an interpretation and under such circumstances the plan priority condemned commodity and money relations to a passive role, and eliminated their roles as incentives to production and trade. This leads to where in commodity exchange the principle of equality of value is realized to an increasingly greater extent by quotas on "hard goods" and on "soft goods." It is true that equal value exchange can be assured in this way, too, but the driving force toward efforts at economy cannot be developed in this way. Not incidentally but as a result of this, the trend toward technical obsolescence appears again and again in CEMA commodity trade. It is true that in the position taken in 1962 flexible commodity trade and the system development of foreign currency cooperation were given a somewhat greater role, and in the Complex Program a much greater role; and also the idea was born of creating direct relations among the enterprises of the member countries, and this will make possible the correct solution of the given problem. But it is also true that all this was not coordinated with the given order and methods of planning and international plan coordination, and thus the commodity and money relations have only a shadow life in CEMA cooperation. In essence, the Stalin tradition survives according to which under socialism products can actually become commodities only in a small part of economic life, and in industrial production and in investment they are only formally such; in the latter sphere the market does not operate, and therefore the role of the plan is not market regulation but direct product distribution. But if commodity and money relations do not operate in the regulation of production, they cannot operate well in international commodity trade either. The basic dilemma of the capital means system of CEMA cooperation can be summed up in this statement.

One of the innovations of the Complex Program was that in 1971 it indicated two tasks to be carried out in a parallel way: the deepening of cooperation and the development of economic integration. The program does not define the specifics of integration, but it links the total of the tasks with the two goals. In all certainty this vagueness stems from a great and justified caution, which we can explain with the fact that the political decision was not preceded by a basic and objectively scientific investigation and debate of the essence and methods of the integration. The consolidation of integration in the European Common Market undoubtedly had a stimulating effect on CEMA cooperation, but certain Common Market methods could not be borrowed. In wake of the program, we can define as a specific of integrational development several combined activities in industrial development, specialization and cooperation, but in general the supplementing of bilateral relations with multilateral relations, the modernization and development of foreign currency cooperation, and in several areas the development of international management organizations. All these form a relatively small part of the outlined cooperation, which the program called for deepening in every part, particularly in production specialization and the international coordination of plans.

Finally, the Complex Program also sets undoubtedly appropriate goals and confines to cooperation, while in respect to integrational development it permits room for various kinds of interpretation and makes possible the combination of various integrational concepts from a mosaic of partial goals.



## Results and Problems, the Search for Certainties and New Paths

When we take into account the circumstances and the whole history of the formation of CEMA, we can establish two reasons that led to the realization of the cooperation. First, it was raised that the relationships of the community should replace to the fullest extent the capitalist world economic relationships of the member countries and with this they should assure the build up and consolidation of the plan management. (It was not clarified what was exactly meant by "to the fullest extent.") The other reason, which has been emphasized since 1956, was that the economic development of the member countries should grow with such new resources as could have a considerable and beneficial effect on general progress.

Beginning in 1949 and after 1956 as well, economic development was strengthened with the exploitation of national resources, but at the same time international cooperation was given a supplementary role to an increasing extent in the growth of national income. Thus the basic participants in the successes and the problems were the national economic policies, and we can define the role of CEMA by stating that without it the successes certainly would have been smaller and the problems which cropped up or have survived would still exist even without CEMA. Therefore, the role of CEMA in economic development is clearly positive. It substantially reduced the world economic dependence of the member countries, and created additional supplementary growth resources. But if we ask whether CEMA is helping the development of the member countries to the extent necessary, the answer is not clearly positive for every period. With the passage of time, the development difficulties are increasing in the member countries, and the supplementary resources stemming from CEMA cooperation are not able to expand proportionally and simultaneously.

If we consider help for the long term development of the member countries through cooperation, we can register success above all in incentives to industrialization, which was truly rapid if measured by a historical standard. It was in the wake of this that agricultural industrialization, the rise in living standards, and the large-scale expansion of social services became possible. The technical development of industry is rapid in some sub-branches but in general it is rather slow. In the development of agriculture we cannot speak of general success. The production of grain and meat is not adequate in a significant share of the countries, and this was not adequately stimulated by CEMA. We can point to slow development also in producer services and domestic trade. From the viewpoint of intensive development these are increasingly becoming restraining factors, but for the latter we cannot put the blame on CEMA cooperation. All this raises the need for long term and well-measured ratio improvements in the national economies.

In the past three decades, we have encountered economic crises in three instances in given CEMA countries: between 1953-1956 in Hungary, beginning in the mid-1970's a "quasi-crisis" in the CSSR, and in 1980-1981 in Poland. The question rises: what is the role of CEMA in these phenomena? Without seeking to undertake a deep search for causes (but this search must be performed as soon as possible!) we may conclude from the practical fact that CEMA cooperation had no definitive role in the development of the crisis

situations. The causes can be ascribed to the economic policies of the given countries, and this is why the crisis did not extend at any one time beyond a given country. This is the case even though it is well known that there are certain characteristic weaknesses in socialist economic policies: the excessively centralized production management, the low degree of material incentives, the inflexibility of production and product structure, the neglect of market equilibrium, and excessive separation from world market value ratios. Undoubtedly, these restrain intensive development, but they do not necessarily lead to a crisis situation. A mistaken economic policy has contributed decisively everywhere to the crisis: a strained and excessively rapid growth, neglect of profitability, and a political disregard for the deterioration of living standards.

Every country's party and government is finally responsible for its own economic policy, and it cannot pass this responsibility on, even in part, to CEMA. But still we should unconditionally deepen exchanges of views in international contacts regarding identical problems, scientific research in seeking ways out, and unbiased discussions. We should all the more seek for the true causes of the crisis situation because in the above-mentioned three cases we cannot truly ascribe the origin of the problem to a weakening or loosening of relations with CEMA. Those who would be content with a baseless assumption like this will find themselves in a blind alley.

If we wish to consider and analyze the key questions of CEMA cooperation, it would be correct, in my opinion, to direct our main attention to the following: the change of goals and methods in cooperation; the homogeneity of social relations and the heterogeneity of economic relations; differences in the situation of the Soviet economy and of the smaller economies; the world economic position of the member countries and of the community as a whole; and the interrelationships in the application of goals and economic means. In the following, let us review briefly and in outline the essence of the above problems!

#### The Development Phases of Cooperation Goals and Methods

The main goals and methods of cooperation are from time to time adjusted to the economic political goals of the member countries, and to this end of course they change as development phases, and realize various combinations of the always existing different kinds of elements. An important tactical element is defense against unfavorable world market influences; another is a quantitative incentive to mutual cooperation; third is the quality development of mutual relations; and finally, the fourth is the activation of world market relations.

If we now try to characterize the development phases of the past period, the following definition and characterization of phases appears to be true to reality:

We may put the first development phase as extending from 1949 to 1961. At that time the cooperation was designed to serve the rapid industrialization of the member countries, and in tactics a dominant role was given to defense against disturbing world economic effects and to the quantitative incentive of mutual

trade. In this period, trade among the member countries rose from a prewar low level (10 to 18 percent by country and even less in the case of the Soviet Union) by 60 percent in 1960, while trade with other areas of the world market declined by 40 percent. This was the first and biggest market change in the CEMA countries. The commodity trade was stimulated to a large extent by a broad-scale quantitative shortage in commodities. The nature of deliveries was to a full extent complementary, without specialization and cooperation. In the final analysis, it did not invalidate the self-sufficiency trend evident to a certain degree in the member countries because the rapid expansion of trade made up in part for the decline in capitalist trade. We may indicate the main successful effects of cooperation in this period as follows: it created stable external relationships for the smaller member countries and in the Soviet Union it eased the shortage of goods. But a problematic side effect also appeared: besides the rapid quantitative climb, this is the time that a commodity structural inflexibility came into being, and in many areas a lag in technical development.

We can count the second phase from 1962 to 1970. The economies of the member countries grew dynamically in this period. At the mutual foreign trade level this was followed by rapid development. With the rapid economic growth, they succeeded in maintaining the internal CEMA trade ratio with the result that by the end of the period it had a 60.8 percent share in the total foreign trade of the CEMA countries. But the ratio of trade with socialist countries outside of CEMA declined sharply from 12.5 percent to 6.4 percent. This was replaced by trade with developing and capitalist countries, which together increased from 27.5 percent to 32.8 percent. This was the second important market change in the economic history of the member countries, which they succeeded in solving along with essentially protecting the foreign trade balance. The germs of product specialization appeared in cooperation practice, but remained narrow in scope. In this period, many elements of long-term work distribution developed within CEMA, and the effort was started at a greater building of quality factors into cooperation. However, an order of permanent relationships and a mechanism for conducting trade with the capitalist world was not developed.

We may put the third phase between 1970 and 1975. These years, too, were characterized by a large-scale dynamism in economic growth, while in other areas of the world economy a crisis situation developed. It was in this period that the third important market change occurred in the economies of the CEMA countries, one which differed essentially from the first and the second. The essentials of the change may be characterized by the following data (see Table 1).

[Table 1 on next page]



Table 1. Distribution of the Foreign Trade of CEMA Countries  
(in percent)

1. sz. táblázat

**A KGST-országok külkereskedelmének megoszlása**  
(százalék)

Megnevezés (1)	1970	1975	Arányváltozás (2) (százalékpont)
KGST-tagországok közötti forgalom (3)	60,8	56,4	-4,4
Más szocialista országokkal (5)	6,4	4,0	-2,4
Fejlett tőkésországokkal (6)	23,7	30,3	+6,6
Fejlődő országokkal (7)	9,1	9,3	+0,2
(4) lebonváltott áruforgalom			

(8) Forrás: Nemzetközi Statisztikai Évkönyv. KSH, 1981. Szatvizsnyieszhij Szpravocsnyik. A KGST Titkárságának kiadványa, Moszkva, 1980.

Key:

- |                                        |                                                                                  |
|----------------------------------------|----------------------------------------------------------------------------------|
| 1. Classification                      | 6. Developed capitalist countries                                                |
| 2. Ratio change (in percentage points) | 7. Developing countries                                                          |
| 3. Intra-CEMA trade                    | 8. Source: INTERNATIONAL STATISTICAL YEARBOOK, Central Statistical Office, 1981. |
| 4. Trade conducted with:               | STATISTICHESKIY SPRAVOCHNIK, CEMA Secretariat Publication                        |
| 5. Other socialist countries           | Moscow, 1980.                                                                    |

As is evident it was no longer possible in this period to maintain the former ratio of intra-CEMA trade.

In this period the quantitative incentive to trade was continued as previously, but the demand for more rapid technical development based on specialization was not as yet really and truly realized. In the foreign trade balance of the member countries after 1972 there was a significant shortage of convertible currencies, which arose amid circumstances for opening up to the world market. What gave incentive to, or what made inevitable, this opening toward the world market? First of all, the technical imports of the large, joint CEMA investments; secondly, the demand of intra-CEMA specialization and technical development for technological imports; thirdly, recurrent, large-volume agricultural imports of some of the member countries; and finally, in the case of some CEMA countries a strong deterioration in the terms of trade. By country, various elements play the main role among the above in the deterioration of the convertible foreign exchange balance.

The fourth development phase began in 1976 and has lasted down to the very present. Characteristic in this period is the general slowing down of economic growth, emphasis on a solution of external equilibrium problems, and generally everywhere the search for new resources and methods for the intensive development of the economy. Among the tactical elements of cooperation, emphasis is being placed on the development of quality factors and defense against unfavorable world market factors. From the former aspect, coordinated technical development has been realized in a number of areas, the effective

area of specialization has been widened, but for the time being only in the field of final products and hardly together with the introduction of new technologies. The main means of world market defense is in a reduction in the import demand of the economy and only to a smaller extent in the increase of export competitiveness. From the short term point of view, the defense may be described as successful, and these may be buttressed by maintaining the convertible-relation commodity trade balances. Over the long term, however, passive defense would be insufficient, and therefore the manner of developing CEMA world economic strategy in the future remains an open question.

#### The Homogeneity of Social Bases--the Heterogeneity of Economic Relations

Until 1961 CEMA consisted of eight European countries, and then it was expanded in 1962 by the entry of Mongolia, in 1972 Cuba, and in 1975 Vietnam. Since Albania terminated its activity in the community, there are at present seven European countries and three non-European countries. Since 1965 Yugoslavia has also joined in the work of certain CEMA organs, and in the 1970's Angola, Laos and Cambodia have shown interest in a relationship, without the intent of full membership, however.

How is the homogeneity of social bases manifested in the member countries?  
In the following:

--In the dominant role of the socialist production relation, and the vastly greater role of social property.

--In the use of socialist plan management methods, the realization of the role of state economic management, and limits on the incentive forces and influences of the market.

--The leading role of the working class is realized in practice by the communist parties, the parties have a determining role in the developing of economic policy, and this shapes unique coordination in the ideological-political trend.

Social homogeneity is, in truth, a factor of first class importance, and without taking it into account one cannot correctly interpret CEMA cooperation. But by no means is this the only essential element. One cannot leave out of account the important economic-geographical and economic differences among the member countries. This became particularly important with the entry of Mongolia, Cuba and Vietnam and with the development of relations with other countries that have a socialist orientation.

How is the identity and the difference of economic relations manifested in the member countries? Mainly as follows, I believe:

--In the case of the smaller countries it creates an identity, or at least a great degree of similarity, if the Soviet Union has an important share in the foreign trade of all. The extent of this trade differs from country to country, but it is considerable in every case. In 1979, Soviet trade made up 19 percent of Romanian, 29 percent of Hungarian, 34-36 percent of Polish, CSSR

and GDR, 56 percent of Bulgarian, and 70 to 80 percent of Cuban and Mongolian foreign trade.

A convergence is evident in the development level of the European member countries--particularly in respect to industrialization--but there continues to be significant differences in respect to technical development. But the greatest and most important difference can be established between the European region and the countries outside of Europe in respect to the economic geographical situation, the general economic development, and the development of social relations. All this is accompanied, of necessity, by the fact that the two groups of countries present themselves with differing demands in the field of CEMA cooperation, and thus the cooperation practice itself must be substantially different.

From the economic point of view, that difference falls heavily into the balance which exists among the member countries from the viewpoint of foreign trade sensitivity. The foreign trade sensitivity of the Soviet economy is large scale only in the case of several products but is generally slight. The external sensitivity of Romania, Poland and the CSSR increases in that order, while finally the GDR, Bulgaria and Hungary (increasing in that order) are open countries to the greatest extent. The relative weight of foreign trade in Hungary, which has the most open economy (as compared to the national income), is five times more than for the least open Soviet economy. To this should be added the unique situation of the GDR, which conducts its foreign trade with the FRG in a special system, the so-called inner-German trade framework.

--Finally, there are important differences in the economic management system and methods of the member countries. In the countries with a directive plan management (the Soviet Union, Bulgaria, the CSSR, the GDR and Romania) the right of economic-commercial decision belongs to the state organs, and the role of the enterprises is in execution. On the other hand, in the indirect plan management countries (Hungary, Yugoslavia, and possibly in the future Poland) the state organs carry out general regulation, but in concrete cases the right of decision belongs to the enterprises. There is also a difference in the relationship between domestic prices and foreign trade prices: In Hungary, Yugoslavia (and apparently in the future in Poland) the foreign exchange rates link the two price spheres together in a normative manner, and thus domestic producers are interested in export and import prices, generally in foreign trade profitability, whereas in the other countries such a link and interest does not operate. There is also a difference in that the price formation regulations, the financial and budgetary system, and the degree of enterprise self-accounting and self-financing are different in every country, and different principles are employed in the organizational structure of enterprise and state economic management.

Some of the above-mentioned differences are necessary, others can be eliminated by way of gradual convergence. All these differences, however, did not develop accidentally or from subjective causes, but are linked together with the actual interests of the individual countries. It follows from all this that in CEMA cooperation the coordination of economic policy is possible only

gradually and up to a certain limit, and that cooperation in the future can only be built realistically on an understanding of the variety of interests and features.

#### Cooperation of the Soviet Economy and the Smaller National Economies

The equal rights of the member countries is one of the expressly important principles of cooperation. Its realization is a requirement of the first order both in bilateral and multilateral relationships. The 1962 basic principles express it this way: "In the socialist camp no one has, and may have, any kind of special rights and privileges." Hence there is an equality of rights at the negotiation table and in the making of decisions, in commodity trade and legal relations whether the interests of the national economies coincide or whether the differences must be reconciled.

But would it be enough to regard the actual characterization of the relations between the large Soviet economy and the economies of the smaller countries as settled with the principle of equal rights? No, because this still does not point out the mutual dependence, the advantages gained from cooperation, and the economic interests that hold the community together. Let us try, therefore, to make a survey of these!

We find in the literature such symbolic comparisons as would present CEMA as a characteristic "radial integration," with the Soviet economy at the center and around it the small economies belonging to its field of attraction. The picture properly characterizes the position of the Soviet economy and its powerful force of attraction, but it can also give rise to a misconception because it might be interpreted as meaning that the economies of the smaller nations play some kind of "satellite" role in a closed community area. But this is not true because the smaller economies are also linked to one another on the basis of their endowments, and their separate world economies are also considerable. But the special situation and role of the Soviet economy, which exercises a great influence on the cooperation as a whole, undoubtedly exists.

Where does the special role of the Soviet economy in cooperation derive from? There are those in the East and the West alike who see the economic role of the Soviet Union as coming from its political weight and influence. Those who hold this view incorrectly interpret the mutual effect of economic and political factors. In fact, the special role of the Soviet economy is a consequence of its large size, its continuous growth, and of the force of attraction which it exercises on the smaller socialist countries. The force of attraction derives from the following: 1. It is possible to export large volumes of many commodity types to a Soviet market that is very extensive and demand oriented. 2. The nearby smaller countries can import a broad range of universal type Soviet production. 3. The Soviet Union has enormous material-producing sub-branches and a limited processing industry, and therefore the opportunity exists for a mutually advantageous exchange in "materials-finished goods." 4. The scale of technical development in the Soviet processing industry is quite broad, which makes it possible for the smaller countries to import developed techniques in a number of areas, and in

other areas they can export competitively to the Soviet market. As a consequence of the foregoing the great importance of the relations with the Soviet Union which have developed since the 1950's in the smaller CEMA countries stems not from momentary factors, not even simply from political alignment, but from long term economic rationalism.

Every national economy has succeeded in deepening its relationships with the Soviet economy on the basis of the principle of bilaterally balanced trade. The absence of multilateralism is less felt in this relationship than in the relationship of the small countries with one another. Since the Soviet economy is characteristically import oriented, it turns to the outside world primarily with its import demand. This is the drawing power of its foreign trade, its relations with the other CEMA countries also develops on this base, and it appears that over the long term as well the renovation of relations will be possible largely on this base.

But how mutual is this mutual dependence? If we compare country with country, national economy with national economy, it is obvious that in the bilateral cooperation of the Soviet Union and the smaller countries there are differences of magnitude in the mutual dependence (see Table 2).

Table 2. Bilateral Trade of the Smaller Member Countries with the Soviet Union in 1979 (in percent)

2. sz. táblázat

A kisebb tagországok kétoldalú külkereskedelme a Szovjetunióval 1979-ben  
(százalék)

Megnevezés (1)	Bulgária (2)	Csehszlovákia (3)	Kuba (4)	Lengyelország (5)	Magyarország (6)	Mongólia (7)	NDK (8)	Románia (9)
(10) Szovjet részesedés a kis ország külkereskedelméből	55,6	35,7	68,8	33,3	28,9	83,7	36,1	15,7
(11) A kis ország részesedése a szovjet külkereskedelemből	8,2	8,3	5,3	9,5	6,5	1,0	10,2	2,5
(12)								

Forrás: Sztatiziszticheszkij Szbornyik. A KGST Titkárságának kiadványa, Moszkva, 1980.

Key:

- |                   |                                                                                         |
|-------------------|-----------------------------------------------------------------------------------------|
| 1. Classification | 8. GDR                                                                                  |
| 2. Bulgaria       | 9. Romania                                                                              |
| 3. CSSR           | 10. Soviet share in the foreign trade of the small country                              |
| 4. Cuba           | 11. Share of the small countries in Soviet foreign trade                                |
| 5. Poland         | 12. Source: STATISTICHESKIY SBORNIK, publication of the CEMA Secretariat, Moscow, 1980. |
| 6. Hungary        |                                                                                         |
| 7. Mongolia       |                                                                                         |

The difference in mutual dependence is also increased by the fact that the role of the national economy in foreign trade is greater in all of the small countries than in the Soviet Union. The smaller economies have a narrower range of selection possibilities because they can hardly replace the Soviet market with other markets. The Soviet market, on the other hand, can replace import and export markets in broader range.

But if we look at CEMA in the multilaterality of its relations, it is evident that the Soviet Union is no less dependent on CEMA relationships, for in 1979 the smaller European member countries combined had 44.1 percent of total Soviet foreign trade. All this makes it obvious the important role the Soviet economy plays in this area of Europe in that it is the main force in the meaning of CEMA economic cooperation, and without it we cannot conceive of a rational economic relation system in East Central Europe.

But in addition to the foregoing there are also other spheres of intra-CEMA relationships. Proportionally, the most important is the relationship of the smaller European countries with one another; the relationship of the Soviet Union with member countries outside of Europe is considerable, but the cooperation of the latter with the smaller European member countries is small.

The various CEMA sub-regions had the following share in 1979 in the combined foreign trade of the small European member countries:

-- Trade with the Soviet Union	33.2 percent
-- Trade among one another	23.7 percent
-- Trade with non-European member countries	1.0 percent

Because of its economic geographical endowments, the Soviet Union turns to a greater extent toward the non-European member countries (Cuba, Mongolia and Vietnam), with the result that together they share in 7.7 percent of Soviet trade. (See STATISTICHESKIY SBORNIK, publication of the CEMA Secretariat, 1980.)

It is evident from the above picture of the situation that the smaller European countries must develop their CEMA relationships in a parallel manner chiefly in two areas: on one hand, each small country with the Soviet Union; and on the other hand, each with the others. The two spheres cannot be replaced one with the other, they cannot develop at the expense of one another because it would reduce the economic strength and effectiveness of CEMA cooperation. In truth, we are speaking of two relationships, systems which need to be developed in a parallel way.

#### The Actual or Shadow Role of Economic Means

Although the Complex Program called for it, we have not really succeeded to the desired extent in bringing into operation the economic means of cooperation, price incentives, the foreign exchange system, the credit mechanism, the export stimulating and structure-oriented role of the market or (to put it very broadly) the material incentive in cooperation. Natural bilateral plan

coordination and commodity trade quotas have remained the main method. The economic means exist, but only formally and not in their true function, and therefore they live in a shadow life.

Economic means can serve the central plan goals on a regulated market if their influences are not thwarted and obstructed by the naturally stipulated enterprise plan and central distribution of financial limits. Undoubtedly, we cannot regard the capital means system of CEMA cooperation as a law to itself, but as closely related to the mechanisms of the national economies. The most important of the relations is the following: the extent to which member countries in their national economies make room for economic management with economic means, to what extent will they become actually living factors exerting an effect toward a positive direction in international cooperation.

In the European member countries, the broad-scale use of economic means has become necessary for two reasons: the attainment of intensive development and greater efficiency, and the more purposeful development of international work distribution. Thus the reasons exert pressure for a substantial renovation of the national economic mechanisms and--because of the explanations given above--on the development of CEMA cooperation. The main method for doing this in the years ahead may be the activation of the economic inventory of means.

What kind of mechanism problems may arise in practice?

--The basic variation of the internal market price-value relations from the external market (international) price-value ratios. But the two must be in harmony if it is not to be merely a problem for the governments but also if it is to have an incentive effect of the actual participants (producers, users and consumers).

--One of the main means is lacking for the multilaterality of relations, an effective foreign exchange system. The role of the national currencies is passive, their exchange rates are for the most part unrealistic, and they do not actually link together the internal markets with the CEMA international markets. Only the Hungarian forint is moving in the direction of becoming a functioning currency in the commercial sphere. Today the transferable ruble is only capable of performing very limited functions.

--The excessive centralization of economic decision rights in the organs of state administration. In countries with a directive economic management system (the Soviet Union, the GDR, the CSSR, Romania and Bulgaria), the enterprises do not have decision rights in production and commercial matters, but only an executive role. This presents a very strong restraint on cooperation because there is a possibility for settling only problems of outstanding importance at the state level (although this is the smaller part of cooperation, numerically speaking).

--The flexibility of foreign trade is small in a system of bilateral quotas naturally defined. Neither the so-called value quota nor trade without quotas has gained civil rights.



If we continue tradition in CEMA, we shall perhaps take many small steps which leave the essence untouched, but for all that the economic system of means will continue to have a shadow life. If we do not wish to continue tradition, we must innovate and accept the difficulties that go with it.

#### The Near and Distant Future: The Possibilities of an Upswing in Cooperation

Undoubtedly, the earlier upswing in CEMA cooperation declined in the 1970's and it is still not adequate. If we are looking for causes we will find them primarily in the proliferation of growth problems of the national economies and in inadequate adaptation to the new world economic situation (including the new CEMA area situation). Another important cause is that in this period the traditional CEMA inventory of methods was not able to renovate itself, and an attempt was made to proceed in the track of past times. With this, the difficulties were not reduced since in raw material cooperation it mediated world economic influences to a constantly increasing extent.

In order for us to find actually new and good possibilities, we must first of all exclude those possibilities which are not new or which are new but not purposeful:

--On basis of experience, the CEMA "long term special programs" do not represent a new or an actually progressive solution because economically they are not well founded.

--The organs which are operating internationally are living for the most part a "sham life"; they are not able to express rational economic activity because the economic means system is lacking.

--The special program agreements which are accounted in convertible foreign exchange are useful and good to the extent they do not limit clearing trade, and are rather sources for supplementary cooperation. But according to experience there is a great danger when the supply side diverts the hardest goods from the clearing to the convertible sphere, and thus they do not expand but merely rearrange cooperation.

Now let us try to review the actual possibilities for progress in cooperation!

1. A halt in the decline of energy and raw material integration. The paradoxical situation in CEMA is that while the world market prices which were taken as the base were depressed, supply and trade increased, but since they are excessively high (in reaction to a monopoly situation) supply is declining. Since raw material-finished product exchange between the Soviet Union and the smaller member countries is an economic geographical feature, its further decline would be not a natural but an unnatural process, and CEMA cooperation could be realized only at a level lower than at present. In all certainty, this may be the hard seed of cooperation in the CEMA Soviet-centered sphere. In recent times the "trend toward disintegration" has appeared precisely in this field, and therefore this is where we must turn cooperation back to its original direction.



2. An upswing in the mutual trade of industrially processed goods. This is an important possibility both in the Soviet economy-small country relationships and in the small country-small country sphere. A new situation was created in this respect by restraints on the speed of investments in the member countries and by the balancing out of increased demand on the consumer market. The former moderates the demand for investment goods and the latter restrains the supply of consumer goods. The way to the solution is to increase, in production and supply, the ratio of such goods as are competitive with capitalist imports both in price and technical parameters, in delivery condition and parts supply. The basic condition for this is that the markets of the CEMA countries should be more open to one another's goods, market orientation in production should be raised vigorously, and rigid foreign trade methods should gradually surrender their place to more flexible ones.

3. Increased use of world economic relations (with capitalist and developing countries) for making CEMA cooperation more dynamic and raising the technical level. It is obvious that in addition to their present 43 percent share in the external foreign trade of the CEMA community, the world market relations have become a first-rate factor and an indispensable source of development. It is not enough to be passively aware of these matters, but a relation-development strategy must be worked out at the community level and in the member countries. An incentive needs to be created in order that the most developed techniques and technologies should flow into all of CEMA through the importing countries. At present there is a counter-incentive in every member country to develop its ruble exports via convertible import outlays because the convertible foreign exchange is a more limited, harder factor than the transferable ruble. If we do not succeed in easing or eliminating this counter-incentive, it will play the role of limiting world market growth in our countries.

This task must be solved in two phases: first, the national economies must adapt more effectively than at present the technical and technological imports from convertible relations; and secondly, this influence should flow more rapidly and freely into CEMA cooperation.

4. The deepening and further development of international specialization and cooperation. This goal is already generally well known and it holds an important place in cooperation documents, but in practice it is realized only formally and at a low level. In relation with this subject, three observations present themselves. First, in present-day specialization practice, work distribution is developing chiefly in the area of deliveries to the Soviet market, but this process does not proceed adequately because of the limited use of economic means. Secondly, the real parallels are in the processing industries of the smaller member countries, and specialization among one another in these countries (in respect to deliveries to the Soviet, the inner and the capitalist markets) is particularly undeveloped. This also refers to production cooperation. And thirdly, the development of production cooperation is strongly obstructed by a rigid separation between capitalist and socialist cooperation. Because of this, we deprive socialist cooperation of an important savings and technical advantage. Economic conditions and the mechanism limit the combination of socialist-based cooperation with an

advantageous capitalist-relation cooperation as well as the expansion of cooperation among capitalist and socialist countries to other interested CEMA countries. In any event, it is a fact that production specialization and cooperation is a great and inadequately used possibility, but which under present traditional methods cannot even be used well, and its success depends on the renovation of the entire cooperation.

5. The full-scale implementation of the Complex Program would represent a great possibility in the further development of cooperation in contrast with the "one-sided" development in which we used only the traditional means of cooperation that can be naturally planned, and we did not concern ourselves with activation and development of the economic means system at the community level.

We must face the undeniable relationship that at the community level the methods of price, money credit and flexible trade can be used to the extent that they are used in the national economies. But since the deepening of community economic relations is a task of first-rate importance, and this can be attained only by full-scale implementation of the Complex Program and respect for the basic principles, which requires a broad-scale application of economic means, this recognition must react on the national economic mechanism. If there exists in the member countries an inclination organically to link together central planning and the market mechanisms for the substantial further development of commodity and money relations, we can kill two birds with one stone: they can give a strong incentive to intensive-type development and at the same time promote the deepening of socialist international work distribution. All this is not an alternative to planning and planning order, but would raise its modernization to a higher level. Thus we should make changes not in the Complex Program but basically in practice.

#### The Long Term Trend of Cooperation

We can in no way think that with the essential and successful implementation of the Complex Program we will establish a long term, future operation which we will have to improve subsequently in practice. We can believe this all the less because when the program was started the drafters and signers believed that they could forecast the progress of development for two decades. Now perhaps we can put the cooperation proceeding on the Complex Program track at an additional two decades, but already the question rises: What will, or may, the long term future be?

But can we tell at all what the future will be like, especially now in the whirl of economic changes and political uncertainties? If we put the question this way, the more realistic answer is "no" not "yes". We would be chasing utopian dreams if we were speculatively to outline what the ideal conditions ought to be. The politician can only put the question like the modern futurist: What are the possibilities in the economy of the future and in community cooperation? In answering, we cannot build much on certainties, but rather on alternative possibilities. In such a concept we must always, as now, have some kind of future image in our consciousness.

If we consider, what the socialist economic cooperation of the future depends on, we can regard, aside from political conditions in the narrow sense, the theoretical system of cooperation as determined or at least strongly influenced by the following main factors:

--Will the capitalist and socialist parts of the world economy and the developing countries, to put it simply--will the cooperation of the three worlds result in a narrowing or expanding trend?

--To how much of the world will the socialist social structure expand?

--To what extent will the integration of the European Common Market develop and what will it be like in its developed form?

--What kind of economic policy and economic mechanism will be characteristic of the national economies that are realizing intensive development?

We must assume--because among the alternatives this is the only one that offers hope--that the economic cooperation of the three worlds will expand proportionally with economic growth, or perhaps at a greater rate. We must all the more bide by this assumption because economic rationalism and the well-conceived interest of the three worlds dictates it.

The most open question is the future expansion of the socialist social structure to various areas of the world. It is in any event correct to build a forecast of economic cooperation on the assumption that the socialist world will consist of the present socialist countries and of the socialist-oriented developing countries.

In respect to the future situation of the West European integration, two possible variants exist. In one case, the European Common Market community will remain, and with increased coordination of economic policies; in the second, they would implement a closely coordinated economic policy, with a common currency and a whole series of common institutions. We regard the first as natural, but if forced for political reasons the second is not impossible. Even in the second instance, CEMA cannot give up its principle of national economic independence, but unquestionably the socialist community would be constrained to a vigorous development of its protective means system.

The socialist economic policy and the economic mechanism of the intensive period must differ substantially from the presently prevailing model. Especially emphasized will be so-called quality factors like production efficiency, the flexible adjustment of production to market demand, the equilibrium of the investment and consumer market, technical development, and the international compatibility of production. It is certain there will be need in the European socialist countries for substantial changes in the economic mechanism, but is also certain that with a delay these will have to be solved under more difficult economic circumstances, therefore the social limiting factors will also exert an effect. It appears that we may reckon with two variants:

--The independence of the enterprises will increase substantially, but remain limited; shortages will decline in production means and consumer goods, but will remain in certain areas; in economic management the role of economic means will increase substantially, but the central management of the enterprises will remain moderately directive. The interest of producer enterprises of international cooperation will increase, but primarily it will be a matter of the exceptional interest of the export sector. With such an economic policy, the country that uses it will be interested in a more efficient international work distribution than at present, but one that is still moderately intensive.

--The enterprises are granted full-scale independence, and together with this the state economic management system will regulate the market more effectively and develop the whole of the economic environment in the interest of greater economic efficiency. The directive management of enterprises is ended, prices are adjusted to value relations, foreign trade prices have a strong effect on domestic prices, domestic market shortages are substantially eliminated, and the distribution of goods occurs with commercial methods. This is accompanied by the development of a supply market in consumer goods. A country using such an economic policy is more interested in and capable of developing international economic cooperation.

The future is open in that most of the countries will build their economic policy on the first and second variant, but it is also possible there will be a great difference among the member countries in this respect. Above all, the Soviet economy in its unique situation--of all the member countries it has the greatest number of unique characteristics--may choose to implement the first variant. Rationality supports the second for the smaller countries that are more intensive in foreign trade.

The future of the CEMA community has alternatives from the viewpoint of whether the cooperation will extend to the various areas of the world or whether separate cooperation blocs will be formed by area. In the former variant it also appears necessary that the European, Asian and perhaps African areas will develop specially developing sub-regions among countries that are close to one another and are at a similar degree of development. In the second instance the small regional communities will maintain a mutual-assistance type of relationship with one another, and close cooperation with the Soviet economy will tie them still closer together.

There can likewise be alternatives in the manner and form of future cooperation among the European CEMA countries.

In one variant the entire European region constitutes a common market which is a free trade zone toward the outside but within the community there is a free flow of goods and manpower, and moreover the internationally owned enterprises (on a combined joint property stock company or a federation basis) operate in a manner not bound to national boundaries. National economic independence and national planning survive in this case, but its directive nature is ended, and only in special cases would it support domestic production against the competition of other socialist countries.

In the other variant, a dual-tie cooperation would be realized. On one hand, each smaller member country would continue to be closely tied to the Soviet Union in such a way that it would develop cooperation on the basis of traditional bilateral relations. On the other hand, the smaller countries in this case would create the common market mentioned in the first variant in such a way that they would form a free trade zone together with the Soviet Union. The smaller countries would also use foreign exchange convertibility in their trade with one another, specialize their production to a great extent, and make it possible for enterprise associations and joint enterprises to operate.

We do not need to choose today from the alternatives of the future. It is necessary to think these over in order that they may serve as a compass to cooperation in the present and the near future as it is being developed.

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CSO: 2500/228

ECONOMIC SITUATION IN CEMA REVIEWED

Budapest FIGYELO in Hungarian 24 Apr 82 pp 4, 5

[Article by Gyula Munkacsy: "Economy of the Socialist Countries: Difficult Questions"]

[Text] The economic development of the socialist countries is in a unique phase today: they must maintain the development of the economy under limited investment conditions essentially without the participation of new external resources, and with a slower rate of growth than formerly they must now carry out structural and quality changes in the economy. In the following we shall summarize the most difficult problems on the basis of economic documents made public in the individual countries.

The economic situation of the socialist countries is burdened with problems in this spring of 1982, but with the exception of Poland the continuity of growth has been successfully maintained everywhere.

In the past year the external conditions of economic growth did not develop favorably, and the situation is still not an encouraging one. The world-wide arms race, the prolonged economic recession in the capitalist countries, the spreading of protectionism, the strengthening of discrimination vis-a-vis the socialist countries--all these are only a few of the unfavorable developments. The possibility has practically ended for socialist countries to draw from Western credits new resources--in the net meaning--into the development of their economies.

The decline of oil prices on the world market has had an unfavorable effect on the Soviet Union, particularly because its import demands for other products --grain, for example--are great and still increasing. For the oil-importing small CEMA countries this price development is favorable, but its immediate advantages are still not being felt. According to the basic price-formation principle of CEMA--as a consequence of a delayed realization of world market price trends--the oil prices which they pay are for the time being increasing and to no slight extent, although even so they are significantly below the present world market level. For this reason, of course, the Soviet Union is for this group of countries still the most important acquisition source for raw materials and heating fuels. But in addition to the price problems, the physical limits of delivery are being outlined more and more certainly. The

recognition of this played no small role in that various CEMA countries have moderated the growth aims of their new five-year plans. The importance of developments affecting the raw material and energy sectors is all the greater because the energy-intensive production structure which has traditionally developed is changing only slowly. But in addition, shortcomings of management methods also encourage a certain waste.

Economic growth in the socialist countries has undergone a moderating trend for some time now. In itself this tendency is not of decisive importance. Much more essential is the kind of structural and qualitative changes that occur in the ground of slower general growth. Many results are already evident in the socialist countries in this field. At the same time, it can be observed that the inertial effects of the earlier development concepts are great. The possibilities of maneuvering and regrouping are also limited by the fact that the signs of shortages are appearing at once in various important areas, for example, in material and energy supplies, in modern techniques necessary for development, and in supplies for the populations.

In Hungary, the 1980 decline in the production of national income was replaced last year by a modest increase. In the GDR, too, there was some uplift. Growth in the other countries slowed down, and in Poland there was an absolute decline. This year's goals are also modest. The average annual goals of the new five-year plans in all countries are higher than actual present growth, that is, than last year's actual growth and this year's planned growth.

Table 1. Development of National Income. Annually on the average, or compared with the previous year, in percent

	1976—1980 (1)	1981—1985 (terv)	1980	1981 (1)	1982 (terv)
Bulgária (2)	6,1	3,7	5,7	5,0*	3,6
Csehszlovákia (3)	3,7	2,0—2,6	2,9	0,2	0,5
Lengyelország (4)	1,3	—	—5,4	—13,0	—
Magyarország (5)	3,5	2,7—3,2	—0,8	2,0	1,0—1,5
NDK (6)	4,1	5,1	4,2	5,0	4,8
Románia (7)	7,0	7,1	3,0	2,1	5,5
Szovjetunió (8)	4,2	3,4**	3,5	3,2**	3,0**
(9)	(10)				

\*Folyó áron számítva. \*\*Belföldi felhasználás.

Forrás: az adott országok statisztikai évkönyvei, tervdokumentumai. (11)

Key:

- |             |                                   |
|-------------|-----------------------------------|
| 1. plan     | 7. Romania                        |
| 2. Bulgaria | 8. Soviet Union                   |
| 3. CSSR     | 9. *at current prices             |
| 4. Poland   | 10. **Domestic consumption        |
| 5. Hungary  | 11. Source: statistical yearbooks |
| 6. GDR      | and plan documents of the         |
|             | given countries                   |

Greater circumspection and increased caution, however, are also reflected in the goals of the five-year plans. For the most part these plans became valid the end of last year, and with the exception of Romania all CEMA countries either lowered the goals of the previous party congress or finalized the lower limits.

Available but by no means complete data indicate a general effort in the CEMA countries to protect or to increase somewhat the level of consumption already attained, perhaps even by restraining accumulation. It can also be concluded from this that, in general, investment activity in the CEMA countries is sluggish. Last year investments declined in Poland, the CSSR, Romania, and Hungary. At the same time, investments increased in the Soviet Union, and while we lack exact data it appears probably there was also an increase in Bulgaria and the GDR. Restraint in investments and a circumspect development policy appears to be a general trend that will be continued in the five-year plan period that is underway. For example, according to plan investments will not be increased in the CSSR during the five-year plan period.

The question can rightly be asked: What will be the lifting power of economic growth given the restraint on investment activity? In understanding only expenditures in the concept of investments, the possibility exists--and this is a general effort--that by limiting new constructions they will at the same time complete at a more rapid rate the operations that are already underway and will increase the ratio of machinery, which represents the "soul" of investments, as compared to construction.

In addition--with varying intensity from country to country--organizational measures will be passed in an attempt to improve the economic mechanism system. For example, the current Bulgarian initiatives are worthy of attention. The depth of these was indicated by Prime Minister Grisa Filipov in his speech in January of this year. The problem of the further development of the economic mechanism has become current again in our day--he said--because certain problems had not been clarified: What is to be understood under the concept of the proprietor and owner of socialist property, what is the character of the state and counter-plan, the nature of the commodity and money relation, what is the essence of democratic centralism?

General tendencies already mentioned, together with national income, are being realized in industrial production: the slowing down of the growth rate and the partial reduction of prior plan goals. An important exception is represented by the fact that the Soviet Union wants to quicken the growth rate of its industry.

Machine production in certain countries is increasing above the average for industry (last year Romania was an exception). On one hand, this reflects traditionally developed economic political efforts, but it also follows logically from the new development concepts which seek to produce more from fewer investment means and raw materials. In this, the machine industry has a key role, including its sub-branches which may be counted as a carrier of modern, technical progress.



The individual European socialist countries are reacting differently to world economic changes which are taking place in the chemical industry and metallurgy. The CSSR is strongly slowing down the development of its chemical industry, primarily because of a shortage of basic materials. Such restraining attempts are evident to a lesser degree in the GDR. The chemical industry in the Soviet Union is developing at a rate exceeding the industrial average (average annual 5.7 percent in the five-year plan period), in Romania (10.2 percent), and in Bulgaria (7.7 percent). In Romania the economic difficulties have been increased to a great extent by the situation which has developed in the petrochemical field: they cannot supply even one-half of the processing capacities from domestic production, and it is not economical to operate these with imports given the high world market prices. Therefore, they are cutting back processing capacities, and thus the main carrier of development in the chemical industry in Romania, according to plan, is the pharmaceutical industry and the manufacture of household and cosmetic items.

Table 2. Development of Material Production. Annually on the average, or compared with the previous year, in percent

	Ipar (1)			Mezőgazdaság (2)		
	1976—1980	1981	1982 (terv) (3)	1976—1980	1981 (3)	1982 (terv)
Bulgária (4)	6,0	5,6	4,5	0,9	4,0	2,2
Csehszlovákia (5)	4,6	2,0	1,0*	2,1	-3,4	3,2
Lengyelország (6)	4,7	-12,6	—	-1,7	4,1	—
Magyarország (7)	3,5	2,3	2,0—2,5	2,3	0,0	4,0—4,5
NDK (8)	4,9	5,1	4,6	1,2	...	0,2**
Románia (9)	9,6	2,6	4,7	4,2	-0,9	6,0—7,9
Szovjetunió (10)	4,4	3,4	4,7	1,5	-2,0	6,2***
(11)			(12)			(13)

\* Becslés értéke adatokból. \*\*Mező- és élelmiszer gazdaság. \*\*\*Saját számítás a terv kötelező előirányzata alapján: 10,2 százalék növekedés az előző öt év átlagához képest.

Key:

- |                |                                    |
|----------------|------------------------------------|
| 1. Industry    | 9. Romania                         |
| 2. Agriculture | 10. Soviet Union                   |
| 3. plan        | 11. *From estimated value data     |
| 4. Bulgaria    | 12. **Agriculture and food economy |
| 5. CSSR        | 13. ***Eigen calculation on basis  |
| 6. Poland      | of obligatory goals of the plan:   |
| 7. Hungary     | 10.2 percent growth as compared    |
| 8. GDR         | to the preceding year's average    |

The lag is great—at least as compared to the plan and to demands—in Soviet iron metallurgy, including the more important products: iron ore, steel, rolled goods and steel pipes. However, this cannot be related to the production and marketing problems which are being experienced throughout the world because according to the Soviet press important domestic needs are not being satisfied. In the case of smaller socialist countries which are in close relation with the world market, the achievements in iron metallurgy can be, in part, judged otherwise. Of course, it is a question to what extent the production that continues to climb in Bulgaria (6.4 percent in 1981) and in

Romania (4.3 percent) can be evaluated as a rigidity of the old economic structure, chiefly since technical development is not rapid enough. From this point of view, it appears more positive that in the CSSR achievement of the sub-branch increased slower last year than the industrial average, or by 9.9 percent.

The increase in the achievements of the light industry is not rapid but stable in individual socialist countries. Last year the achievement of the light industry in the CSSR and in Romania exceeded the industrial average and approached it in the Soviet Union and Bulgaria.

Tensions are evident in energy management. These are partly related to the deteriorating efficiency of fuel production, and import problems. Energy supply is relatively balanced in the GDR, Bulgaria and Hungary, but certain difficulties have cropped up, with a limiting effect of the achievement of the entire economy, in the CSSR and Romania in addition to Poland.

Achievement in agriculture was for the most part unfavorable in the past year. The sub-branch offers a balanced achievement in the GDR, where a small increase is probable. Production increased also in Bulgaria and Poland, but not to the extent that would have balanced out losses in the previous years. In Hungary, production remained at last year's relatively high level, while in the Soviet Union, the CSSR and Romania it declined somewhat. In the Soviet Union the production of the more important crops, excluding cotton, lagged behind the previous five-year average, and grain and meat supply problems came to the forefront. In the other socialist countries, grain production was medium or weak-medium, but for the most part below what it was in the previous year. This in itself would not be an unbridgable problem, but it makes the situation more difficult that the smaller countries concerned--with the given foreign currency supply--can only make up for shortages from imports at the cost of difficulties and to a limited extent. As a consequence in the CSSR, for example, they are reducing pork and poultry stocks in a planned way over the long term.

A full scope of data is not available for the foreign trade of this group of countries. Undoubtedly, however, the inner economic tensions have had an effect on foreign trade. Trade among the CEMA countries has expanded, but the commodity shortage, which affects a broad range on the list of items, has had a retarding effect on trade. On the basis of partial data, it can be assumed that East-West trade has diminished somewhat, more exactly commodity exchange with the developed capitalist countries. But various CEMA countries sought and found compensation on the markets of the developing countries.

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CSO: 2500/248

DEPUTY MINISTER DISCUSSES 1982 BUDGET, FINANCE POLICY

Prague FINANCE A UVER in Czech No 2, 1982 pp 73-79

[Article by Eng Miroslav Zamecnik, first deputy minister of finance of the CSSR: "State Budgets and Fiscal Policy for 1982"]

[Text] The state budgets approved toward the end of 1981 by the governments and legislative bodies of the federation and of the republics were drafted and detailed under relatively complex and demanding conditions. Although in the spring of 1981 the government had approved the projected state budget and the instruction concerning the 1982 state plan, certain tasks of the state plan and the budget policies required adjustment and modification in the course of the year due to changed conditions, particularly in the area of fuels and energy and resources of raw materials; it was not until early November 1981 that Decision No 301 of the CSSR Government in its directives concerning the finalization of the draft of the state plan for national economic development in 1982 stipulated the final form of the budget policies. Within a very short time those directives had to be projected into every sector of the plan and of the budget, which modified certain trends based on the projected budget and on the plans and budgets proposed by the ministries.

Another of its characteristics was that it concerned a plan and a budget for the second year of the application and validity of new economic regulations outlined in the Set of Measures, even without any comprehensive assessment of the results achieved by them during 1981. Such an evaluation could be completed only after annual analyses of the economy had been made and after economic achievements of organizations could be concluded in the spring of 1982. Finally the drafting of the state plan and of the budget was further affected by considerable pressures on the economic management and conservation in every sector of our national economy, for which purpose, among other things, the economic management program for the Seventh Five-Year Plan was being compiled almost at the same time.

In view of all those facts, a proposal for the state budget was drafted, proceeding in terms of fundamental policies and economy from the decisions of the 16th CPCZ Congress that were further specified by the decisions of the Fourth and Fifth Plenums of the CPCZ Central Committee and by the law on the Seventh Five-Year Plan for national economic development.

## Economic Conditions Determining the State Budget for 1982

A natural point of departure for the plan and budget for 1982 and for their future implementation is the result achieved in 1981. According to an analysis made by the Fourth Plenum of the CPCZ Central Committee, the results noted in several sectors of our economy fell below the level of the planned tasks; the opportunities of the economic potential on hand had not been adequately exploited and the solution of certain material problems of our economy had been lagging. Several sectors were unable to raise economic efficiency to the required level; it is projected that the plan for capital investment will be met neither in terms of structure nor overall volume, including the schedule for launching new capacities into operation. The turnover of supplies will be decelerated by about 1.4 days, although the plan had envisaged its acceleration. The situation has been further complicated by developments in our agriculture because the harvest fell below the plan. These factors decidedly affected the fulfillment of the tasks stipulated by the state plan and state budget for 1981, and the main objective of our economic policy for 1982 is to overcome such factors by all means.

According to a preliminary projection, the creation of social product in 1981 will be 1.0 percent above that in 1980, consumption in production will be 1.6 percent up, and the created national revenue 0.1 percent up; in view of faster growth of exports than imports, consumed national income will be 1.2 percent below the 1980 level. From the above basic ration, it appears that the formation of material resources is expected to decelerate and practically all key sectors of our national economy will share in this slowdown.

On the other hand, the results projected in economic management in 1981 display several positive trends, above all, in the development of material costs and some nonproductive expenditures, which evidently reflects the effect of the Set of Measures, focusing mainly on the qualitative aspect of the management of organizations. Furthermore, improvement was noted, for example, in the sector of foreign trade and some other areas. Moreover, it is anticipated that the economic management of the state budgets in 1981 will be balanced.

Next to the continuity of the economic development, the plan and budget for 1982 are determined to a major degree by certain new objective factors specified, above all, in the above-mentioned governmental directives, particularly lower material inputs in the economy, such as fuel, energy and supplies of some raw materials, which called for trenchant measures in the 1982 plan demanding more thorough exploitation of available assets and potential as well as structural and other changes in production in order to conserve more fuels and power, or as the case may be, to reduce overall consumption in production. The pressure to balance the payments demands that the export potential of the Czechoslovak economy be increased as much as possible and concurrently, that its needs for imports be reduced. As a natural consequence of these facts, temporary deceleration of dynamism

is imperative when creating the resources which must be used for the planning and implementation of structural changes and other measures needed to provide preconditions for the fulfillment of the objectives of the Seventh Five-Year Plan and aiming at gradual acceleration of the dynamism of development in the second half of the five-year plan.

#### The Direction of Fiscal and Budgetary Policies in 1982

The main target of our fiscal policy in the context of all economic policies and tasks of the state plan and of the state budgets is to achieve further, albeit less dynamic, economic development and to maintain the level achieved in our living standard and social welfare of our population. At the same time, it proceeds from the positive results of the development in 1981 and strives to resolve problems in those sectors that thus far have not been developing favorably; thus, it tries to help consolidate and balance our domestic economy as well as foreign relations.

At the same time, fiscal policies maintain the continuity of their objectives and programs in those areas where their current forms and methods have proved successful, and conversely, they react vigorously in those sectors where changed conditions call for a new approach, among them, for example, necessary cuts in capital investment programs, reduced rate of noninvestment spending in production and nonproduction areas, covering most (about 85 percent) of the growth of the revenues by reducing the costs, because the capacity for higher outputs has narrowed considerably due to the decelerated dynamism of the economic development, and so on.

The fulcrum of our fiscal policies, seeking, above all, to exert maximum pressure on achieving efficiency in the entire process of replacement, has its logical basis in the economic area, especially in state economic organizations. It is envisaged that in 1982 the volume of revenues for the whole of the CSSR will be Kcs 1.98 billion, i.e., 2 percent, higher than in the past years, which is a very demanding task in view of the overall deceleration of the economic growth rate. This task must be met by cutting overall costs by 0.21 percent, of which material costs, including depreciation, by 0.47 percent. Nevertheless, some wage costs will be slightly increased by 0.26 percent and fiscal costs will be 1.16 percent up. Financial costs will be up mainly due to the rising interest rate, contributions to funds allocated from expenses, etc. However, the most sizeable drop, namely, 0.94 percent, is evident in material costs without depreciation, which is a galvanizing task calling on all sectors and managing apparatus of organizations to concentrate as much as possible on new approaches to higher efficiency. Demanding tasks in the area of material costs are projected also in the planned rate of profit which will rise 2.2 percent semiannually. Return in value added will be up 0.1 percent. An equally favorable development could not be achieved thus far in profitability of operating funds, which will decline, according to the projection, 2.8 percent; this points to the untapped assets still existing in the exploitation of capital assets and supplies.

Due to the generally decelerating dynamism in the creation and exploitation of material resources, creation and exploitation of resources will decline in 1982. The consumption of resources is down (10.8 percent) which is higher than the decline in their creation (2.1 percent) and this allows room for a positive balance of the planned real resources and needs of economic organizations to increase 17.3 percent. This balance reflects the financial demands of our state economic organizations and at the same time, represents their total financial economic contribution toward the satisfaction of all societywide needs. The plan envisages that this contribution will increase Kcs 9.40 billion. This is an exceptionally demanding task because in preceding years the resultant relations of economic organizations could never be improved to such an extent. By the same token, this relation must be improved much further by creating more resources and in particular, profits.

Within the framework of financial relations of our state economic organizations to our society, their relations to the state budget are naturally of the greatest importance. In the proposal of the plan for 1982, total payments exceed total grants by Kcs 63.33 billion, which is Kcs 2.54 billion more than the results projected for 1981. If one takes into consideration the multiplying problems affecting the development of the production sphere, this contribution is commensurate with the present conditions and with the realistic potential of economic organizations.

Payments from economic results play, above all, a role in this development of relations to state budgets; their increase amounts to 8.8 percent above the projected reality and is affected not only by the growing profitmaking but also by measures in the area of capital investment and its financing.

The planned drop in the total volume of grants was made possible by lower grants for capital investment in conjunction with consistently implemented stipulations that the total volume of investments be reduced with focus on accelerated completion of projects and their launching into operation. At the same time, the proposed plan emphasizes more exploitation of investment credits whose share in the funds for financing is up. Thus, the trend toward a stagnation, or as the case may be, toward lower capital investment, dating back to 1980 continues to a greater extent in 1982. Financial requirements of capital investment declined Kcs 6.12 billion against 1981 and thus, in 1982 they will amount to Kcs 148.82 billion, of which the state budget will cover Kcs 38.68 billion, i.e., 26.0 percent; this represents a Kcs 1.49 billion, or 3.7 percent, cut in grants.

Due attention must also be focused on problems of financing technological development. All levels of management must, therefore, review the tasks outlined in the plan for technological development as concerns their contribution to the development of efficiency and the amount of their planned costs.

Expenditures for scientific and technological development will amount to Kcs 17.40 billion, of which the state budget will finance expenditures in the amount of Kcs 6.70 billion, i.e., roughly on the 1981 level.

## The 1982 Fiscal Policy in the Area of Living Standard

Fiscal and budgetary policies in this area concentrate on the following basic objectives and tasks:

--noninvestment expenditures for social services and programs for the population will amount in 1982 to Kcs 134.94 billion, i.e., 2.2 percent (Kcs 2.85 billion) more than in 1981; they will amount to Kcs 8,706 per citizen, i.e., Kcs 81 more than in 1981;

--in the framework of social services and programs for the population the noninvestment expenditures for social welfare amount to Kcs 74.12 billion, i.e., 2.8 percent more than in 1981; in the educational system to Kcs 22.58 billion, i.e., 1.2 percent more; in health services to Kcs 21.15 billion, i.e., 2.4 percent more; and in culture to Kcs 3.61 billion, i.e., 0.1 percent more than in 1981;

--the volume of social aid to families with children will amount to Kcs 34.71 billion and will be 2.6 percent higher than in 1981;

--the expenditures from the state budgets for housing construction and housing management will amount to Kcs 22.34 billion, which is on the level of 1981;

--supplies of goods for the retail network will amount to Kcs 269 billion, or Kcs 1.9 billion more (index 100.7); the average tax duty will amount to 26.4 percent of retail prices and thus, it is up 0.7 point due to a higher share of the procurement of industrial goods than of foods which are subject to a lower tax duty. Sales taxes, including RVT, will amount to Kds 97.74 billion and negative sales taxes to Kcs 8.35 billion;

--the state budget will continue to award noninvestment grants in relation to the living standard of our population; such grants will amount to Kcs 15.90 billion in 1982 as compared with Kcs 15.19 billion in 1981. This concerns primarily subsidies to the prices of milk, cheeses and slaughter cattle and compensation for losses incurred by municipal mass transit, etc;

--a 13 percent growth of the average wage is envisaged for 1982. Cash income of our population will increase Kcs 9.6 billion, reaching Kcs 376.5 billion in 1982 (2.6 percent up); incomes from wages will rise 1.9 percent and incomes from social security 3.0 percent. Taxes on wages will be up from 17.21 percent to 17.26 percent;

--savings of the population will increase to Kcs 9.0 billion; at the end of 1982 deposits will amount to Kcs 176.8 billion and ready cash to Kcs 43.7 billion;

--new loans granted to the population will amount to Kcs 10.7 billion and loans to Kcs 34.5 billion.



The main objectives in this area and the sizeable volume of expenditures for social consumption will be achieved by means of expenditures of the budgetary and contributing organizations for social services and programs for the population. In the sense of the above-mentioned directive by the government, their volume is set at the level of the budget approved for 1981, adjusted by projected savings and by acceptance of increased expenditures required for contributions to social welfare, wage funds, medications and special medical supplies, in accordance with the state plan.

In this context, new tasks must be met, including the planned growth of outputs in the educational and health systems, and of expenditures related to the restructuring of the Czechoslovak educational and training system; thus, in order to settle this situation, available financial resources must be employed in a more economical way. Basic data are presented in Table 1.

TABLE 1

Billion Kcs

<u>Indicator</u>	<u>Plan 1982</u>	<u>Difference</u> <u>1982-1981</u>	<u>Index 1982/1981</u> <u>(noninvestment</u> <u>expenditures</u> <u>only)</u>
Total expenditures of budgetary and contributing organizations for social services and programs for the population--total (including investments)	151.19	+2.15	102.2
where expenditures for:			
- social welfare	74.26	+2.07	102.8
- health services	22.82	+0.37	102.4
- educational system	23.90	+0.30	101.2
- culture	4.28	+0.02	100.1
- housing construction and housing management	22.34	-0.03	99.8 <sup>a</sup>

<sup>a</sup>Index of total expenditures

Expenditures for social welfare demonstrate the highest rise; two-thirds of those expenditures cover pension benefits which will increase Kcs 1.42 billion in the CSSR in 1982, i.e., 3.2 percent over the projected outcome of 1981.



It is presumed that the calculations of pension benefit paid will increase in the CSSR from 3,809,000 pensions paid as of 31 December 1981 to 3,859,000 pensions paid as of 31 December 1982, i.e., 1.31 percent. Expenditures for pensions will increase from Kcs 43.60 billion in 1981 to Kcs 45.02 billion in 1982, i.e., 3.3 percent. Average monthly pension benefits will rise from Kcs 954 in 1981 to Kcs 972 in 1982, i.e., 1.9 percent.

Expenditures for health insurance of workers and production cooperatives are earmarked for payments in case of illness, for incentives to stimulate the growth of the birth rate and for other material benefits. Expenditures to stimulate the birth rate include maternity cash bonuses, compensation during maternity and pregnancy leave, bonuses at childbirth, contributions for children, and maternity benefits. The budgets allots Kcs 15.70 billion for such payments in 1982, which is 1.2 percent more than in 1981.

The 1982 fiscal policies are targeted so as to slow down the current skyrocketing rise of expenditures in our educational system and, thus, all tasks in general must be met primarily by achieving the economically most efficient spending and control of funds. According to the indicators of the plan, the number of kindergarten classes will increase by 416, of classes in the elementary nine-grade schools by 417, and of classes in secondary academic schools by 29.

Furthermore, a certain growth is envisaged in medical services with the addition of 214 hospital beds; day-care centers will have 2,390 more openings, etc. The volume of overall noninvestment expenditures of budgetary and contributing organizations to health services budgeted for 1982 includes, according to the state plan, higher wage funds than the outcome envisaged for 1981, and a 6 percent rise in expenditures for pharmaceuticals and special medical supplies.

In the housing construction sector the planned number of all types of finished housing units in new construction projects in the CSSR represents a total of 101,200 in 1982. In communal construction 20,200 housing units will be completed, in enterprise construction, 5,150 housing units, in cooperative construction 42,850 housing units, and in private construction 33,000 housing units while 2,892 housing units will be remodeled.

#### Main Proportions of State Budgets

The less dynamic formation of material resources in 1981 has been inevitably reflected in less dynamic incomes of the CSSR state budgets. This also results in less dynamic expenditures of the state budgets of the CSSR as well as in their stagnation of decline in certain areas. Nonetheless, on the whole the state budgets of the CSSR also demonstrate, along with balanced incomes and expenditures in 1982, a 1.6 percent growth above the envisaged outcome of 1981.

As in past years, most revenues of the state budgets (including the budgets of national committees) are derived from the socialist economy (see Table 2).

TABLE 2

	<u>Kcs billion</u>	<u>Percent</u>
Taxes paid by economic organizations	126.77	41.48
Sales tax and margins of the domestic market	97.74	31.98
Taxes from financial and insurance enterprises	10.53	3.44
Taxes paid by the population and levies	42.97	14.06
Other incomes of the budgetary sphere	27.59	9.04
Total revenues	305.60	100.00

By their volume the taxes of economic organizations represent the most important sector of budgetary revenues and analogically, 79.5 percent of the total increment in the revenues are derived from an increase of such taxes.

In the area of expenditures of the state budgets, noninvestment expenditures of budgetary and contributing organizations are slightly up (index 102.7), however, in their framework most of all expenditures of a material character in social consumption are stagnating. A slight rise is evident in wage funds.

The sector of expenditures in the state budgets has been affected by the general objective of the state plan and budget for 1982 in the area of capital investment, aiming at a reduction of all investment costs which have been declining semiannually by 3.7 percent. As for investments of state economic organizations, investment grants are focused on the most important projects in the fuel and energy base, the Prague metro, etc. In budgetary and contributing organizations the grants are down, mainly due to the shrinking volume of projects and deliveries in comprehensive housing construction and due to restrictions on new launching of projects so as to give priority to the completion of projects already under construction.

The state budget of the federation has a 65.6 percent share of all revenues in the sum total of the state budgets. On the other hand, its own expenditures represent no more than 22.9 percent of all budgetary expenditures. The state budget of the Czechoslovak federation receives the remaining resources in the form of general and designated allocations to the state budgets of the republics as grants to cover their planned needs, including a part of the needs budgeted by the national committees. The share of such grants in the expenditures of the state budgets of the republics, including grants to the budgets of national committees averages 55.4 percent and represents Kcs 114.57 billion, of which 50.8 percent are designated grants.

General grants and designated subsidies paid from state budgets of the republics to the budgets of national committees amount to a total of Kcs 57.65 billion and their share in total expenditures of the budgets of national committees is 60.6 percent.

The state budget of the federation also fulfills its coordinating and integrating function, among other things, by means of grants to other sectors of the budgetary system and organizes the fiscal development in a unified or differentiated fashion, according to the needs in individual sectors, areas or levels of the budgetary system.

#### Conclusion

The approval of the state budgets by responsible governments and legislative bodies signaled only the first stage in the work for the state plan and state budgets for 1982. With regard to a relatively major price adjustment as of 1 January 1982, the state plan and budget had to be converted to the new price situation at the beginning of 1982.

In addition to the new prices, the program of conversion must also include a projection of two more relevant factors into the plan; those factors could not be included in the proposal in old prices mainly because their approval and specification almost paralleled the drafting and presentation of the state budget and the state plan.

This concerns, first of all, the introduction of an improved planned management system in the agriculture, which was discussed at the Fourth Plenum of the CPCZ Central Committee and which applies as of the beginning of 1982. It involves, among other things, for example, adjustments of procurement prices for agricultural and livestock products, premiums for higher receipts for agricultural products and other incentives. The state budget already includes assets in the amount of Kcs 2.9 billion in the form of a surplus for disposal, which will enhance the financial base of our agriculture and the efficiency of improved policies.

Furthermore, the achievements stemming from the program of better stewardship adopted by the Government of the CSSR and party organs toward the end of 1981 must be projected into the state plan and state budget. This involves, in particular, rationalization in the area of managing and administrative programs and in the scope of the state and administrative apparatus, more efficient and economical use of automobile service for business purposes, and in nonproductive expenditures and some other measures.

In terms of creating financial resources and of financing social needs, the state budgets for 1982 represent a realistic base for the implementation of all assigned tasks. Naturally, in the course of their fulfillment maximum efforts must be dedicated to their fulfillment and for that purpose, specific efficient measures must be adopted in the production and nonproduction spheres, because those are extremely demanding tasks, but their fulfillment is a categorical precondition for our further economic and social development in every sector.

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# HIGHLIGHTS OF AMERICAN-HUNGARIAN ECONOMIC CONFERENCE

Budapest MAGYAR NEMZET in Hungarian 1 May 82 p 7

[Article by Gyorgy Ranki: "The Hungarian Economy in International Perspective"]

[Text] "Never before was there a scientific conference of such great magnitude on Hungarian economic life held beyond the borders of our country"—pointed out Mihaly Simai, deputy director of the World Economic Research Institute, one of 15 Hungarian economists participating in a four-day conference organized by the Hungarian department of Bloomington [Indiana] [University of Indiana]. It would be hard to understand what brought, in addition to Hungarian economists, another more than 80 economists to this small, far-away midwestern American college town from the United States, Canada, France, England and the Federal Republic of Germany, if we did not take into account the unparalleled interest that has been expressed toward Hungarian economic life and the Hungarian economy. It was this interest that had prompted the organizers of the conference—professor Paul Marer, a member of the economics faculty of Bloomington University [sic] and the author of these lines—to include a discussion on economic questions in its academic program—following last year's historical conference—and to tie it in with the programs of the upcoming American-Hungarian round-table conference has become a regular event. In drawing up the plan for the conference, there were three topics which we considered equally important: the new phase of Hungarian economic reforms from the point of view of planning and enterprise management, the question of Hungarian agricultural development and the current question of East-West financial and trade relations. Although there has never been any doubt that the timeliness of of these subjects goes beyond their narrowly defined scientific importance, we did not even suspect at the time that the recent world political and economic events would give this conference concerning Hungarian economy such special significance. Mainly as a result of the serious situation of the Polish economy, the various manifestations of the world economic recession and the indebtedness of the socialist countries, but even beyond that, because of the heated debate surrounding the direction of future American foreign policy toward Eastern Europe, there were a great many people at the conference from the American State Department, from other official American agencies, and last but not least, from the World Bank and from the International Monetary Fund.

The discussion of the Hungarian economic reforms began with a presentation by Ivan T. Berend, who started out by giving a historical assessment of the problem. Rather than focusing on giving a historical description of the economy, Berend centered his discussion around the interrelationship between economic policy and the economic mechanism. He called attention to the fact that twice during the past 25 years--once in 1957, and again after 1973--the implementation and development of the necessary reforms was hindered by political circumstances. He also pointed out that during the various phases it was either the economic policy, or the mechanism which was improved or significantly changed, but that most of the time this did not occur simultaneously. In his opinion it is the new, significant reforms introduced since 1978 that are the most closely interlinked with our bold, new economic policy orientation and which, for the first time in the economic history of socialism, has shifted the emphasis from import-substituting industrialization to foreign economic orientation.

Bela Balassa, a professor at the Johns Hopkins University of Baltimore, and a leading consultant for the World Bank, gave an in-depth analysis of post-1968 Hungarian economic development. He pointed out that the problems that have arisen since the second half of the 1970's have been due partly to the inconsistent implementation of the reforms, and partly to a special combination of new, world economic phenomena. After analyzing our new economic measures, he came to the conclusion that without a consistent wage reform the price reform cannot yield the expected results, just as we cannot hope to overcome our difficulties if we fail to establish a stronger correlation between wages and labor productivity. According to Balassa, the weakness of Hungarian industry stems from three factors: the lack of adequate small companies, the inefficiency of our support industries and over-centralization.

One of the strongest points of Balassa's presentation was that it went beyond merely looking at the internal problems of the Hungarian economy, and examined them within the context of a broad international scope of economic problems facing countries of similar levels of development. In this context he was able to more clearly assess our achievements and to define the future requirements of our reform, not the least of which is the need to overcome our still existing dichotomies and inconsistencies.

The extent of these dichotomies and inconsistencies was shown with great scientific precision by Janos Kornai. Using tremendous amounts of domestic materials--reports, analyses, statistical figures--he pointed out the dichotomy that has characterized the implementation of the economic reforms introduced since 1978. Due to the overly flexible handling of profit incentives and to inconsistencies in determining production costs and prices, we have continued to be unable to create appropriate budgetary pressures. There is the possibility, that if the large-scale enterprises and the price office failed to develop a relationship that would once again allow enterprises to have broad price-forming functions in the pricing process, the increased role of the price office vis-a-vis the

enterprises might tempt us to pay more attention to the effects of the market than to administrative controls. This would lessen the value of the reforms' achievements which Kornai so thoroughly assessed, for the administrative relationships--i.e., the seller's price demand and the buyer's price offer--would not be brought into harmony with the market.

Arton Tardos examined those reform measures which had to do with the smaller enterprises. In general, he talked about the over-centralization of the Hungarian economy, and in connection with our recent measures he emphasized why the creation of smaller enterprises was essential to having a flexible economy and a stronger support industry. He gave some extremely interesting figures to demonstrate the utilization of manpower in the Hungarian economy and in the so-called second economy. Professor Paul Haare of England's Stirling University examined the institutional background of the economic reforms. According to his conclusions, the institutional basis of the reforms is still not strong enough. The English professor also went back to 1968 to take a comprehensive look at the relationship between economic policy and institutional changes, stressing that these changes were very much needed in view of our convertible currency deficits, the inadequate market-orientation of some of our enterprises and the continued existence of a deficit-economy.

The main question people are asking is still: how can we eliminate our enterprises' traditional system of interrelationships to obtain financial and other resources without making our production adequately competitive, and how can we circumvent those hidden regulators which point toward recentralization? In Paul Haare's view, to successfully implement our reforms it is essential that we further weaken our vertical ties and allow the establishment of new small companies.

In his presentation, which drew considerable attention, Rezso Nyers examined the relationships between economic reform and political development. He started from the assumption that the reforms were based on a combination of two goals: a short-term goal, i.e., solving our immediate economic tasks, and a long-term goal, i.e., establishing an appropriate economic model. The realization of these goals, however, is inseparable from our domestic and international relations. Today, as a result of our shift to a phase of intensive growth, we have been forced to revise our traditional socialist economic model, and there is an effort under way almost everywhere to bring our development goals and the economic mechanism into better harmony. The reforms which cannot be replaced with substitute measures--stressed Rezso Nyers--are naturally inseparable from East-West economic relations. Giving an analysis of the interrelationships between the style of Hungarian political leadership and the economic reforms, his presentation made it clear that while these have been reforms "initiated from above", they have been based on the needs below, which is why they have also received support from below. Working on the solid basis of the socialist alliance system and of the CEMA, by consistently upholding our national interests and by fruitfully cooperating with the Western world and the developing countries, we will be able to solve the problem of foreign-trade dependency and to carry out



the needed structural changes in our two-market foreign trade and in our commodity turnover abroad. Today, the continuation of the economic reforms in Hungary is not just an alternative possibility (as it was in 1968), but a political necessity.

Can we talk about a Hungarian model of planning--asked Tamas Bauer in his presentation. The young economist took an in-depth look at the changes that have resulted from the elimination of detailed planning and central material distribution, and which have substantially reduced the traditional bureaucratic controls. He pointed out, however, that this has by no means meant that the elements of the market have begun to dominate, since the limits within which supply and demand interact and prices develop are greatly restricted. Concerning the question asked earlier referring to the complementary roles of the market and planning, he felt that under the present circumstances neither of these two components are adequately present.

These analyses of the present state of the Hungarian economic reforms and of the recent measures, supplemented with presentations by economists Paul Milch of California, Agota Goulette of Paris and Laszlo Dreschler of Budapest, and with a paper by professor Laura Tyson of the University of California at Berkely, comparing the structures of the Hungarian and Yugoslav economies, began an extensive debate among the more than 100 participants attending the conference. In addition to analyses of the problems facing the Hungarian economy, naturally there was also plenty of discussion--especially in the contributions by professors M. Bernstein of Detroit, J. Montias of Yale, E. Hewitt of Washington and H. Rocha of Leeds--about the ability of the Hungarian economic reforms to create a unique and lasting model of socialist economic management. It seems that in this context the contours have become more clearly defined in agriculture than in industry. Csaba Csaky gave a very thorough analytical overview of the achievements of Hungarian agriculture and of the problems of its structure. The achievements of Hungarian agriculture have attracted attention not only because Hungary does not suffer from supply problems, although we can hardly ignore the importance of this fact, but also because in certain special, thus in several respects, especially in the area of per capita production, our collective farms and the surplus work connected with it have worked themselves into the forefront of the world. Professor Michael Maress of the Northwestern University in Chicago arrived at the same conclusion, but he agreed with Csaba Csaky in referring to the problem of costs as an unfavorable feature of our otherwise considerable development. This subject was further expounded by professors Stephen Schmidt and Robert Thompson.

Although during the first two days of the conference the debate was centered around the achievements and interrelationships of the Hungarian economic reforms examined in a broad international perspective, on the next two days of the conference there was more attention given to world-economic relationships when, as a continuation of the traditional American-Hungarian round-table economic discussions, the emphasis shifted to the financial and political aspects of East-West relations, the

prospects of the world economy and their effects on Hungary, with a special emphasis on the world's energy and food-supply problems. Professor Richard Portes of London's Birkbeck College examined the effects of the Polish crisis on East-West relations, stressing that the serious mistakes that have been made and the severe problems that have been created will eventually force everyone to realize that the East and the West are economically interdependent, and that neither side can view this relationship as a one-way street which is beneficial only to one side. There were unquestionable mistakes made both in the taking and granting of loans, and in view of the significant differences in the American and Western European approaches to the problem, it could hardly be argued under the present circumstances that these mistakes can be easily undone.

Also examining the Eastern European countries' indebtedness was Gabriel Erchel, Vice President of the largest privately owned American bank, the Bank of America, who concluded that the rescheduling of repayments must be done before the debtors get into even more serious financial difficulties. He also called attention, however, to the growing cautiousness among bankers and to the changes that have been taking place in lending behavior. Tamas Bacskai chose a framework of concepts connected with the new financial world system to examine East-West financial relations, including the situation of the Eastern European countries. He explained how the emerging crisis of the financial system established at Breton Woods has made the Eastern European countries' financial situation more difficult, even though they were not direct participants in the agreement. Although these analyses, supplemented with presentations by American professors Thomas Wolf and Edward Hervell showed significant differences, they fully agreed both in their presentations and in their debate that the only way the difficulties of the international financial and trade system can be solved is through mutual cooperation, and that decisions in any other direction may cause the same kind of problems for the Western world as for the East.

All of this, of course, is inseparable from the development prospects of the world economy which were given a comprehensive look by Mihaly Simai. Simai stressed that the Soviet Union and the United States continue to be in the center of world-economic and political relations. What this means for Hungary, as Bela Kadar and C ibor Palanki pointed to in the structural context and as Istvan Dobozi explained from the especially sensitive point of view of energy supplies, is that the country's economic dependence on international economic conditions is unlikely to decrease. But this should not really be our goal. Much rather, we should try to catch up with the new requirements of the world economy by building an export-oriented economy and by showing more flexibility than before in adjusting to the conditions of development. As the presentations by professors Istvan Magas and Josef Brada demonstrated, making this kind of adjustments has meant occasional difficulties even for such highly developed countries as the United States.



Once the more important papers presented at the conference become published in Hungarian, the general reading public will also be able to get a direct look at the high professional standard of the conference, even though it will be hard to reproduce the excitement and the fascinating character of the debates. Perhaps it was not by accident, and was a very good reflection of the goals and the atmosphere of the debate, that the last session of the conference--in which Gyorgy Varga discussed the problems of the Hungarian enterprise structure--was not held at the University of Indiana, but 60 kilometers from it, in Columbus, on the premises of the Cummins Machine Factory, which is one of the leading industrial enterprises in the United States. The reason for this was that a few years ago the Cummins factory established cooperational ties with Ikarus, and the directors of the firm--who were present throughout the conference--are confident that soon there will be even more Hungarian-made, Cummins-engine equipped, articulated buses running on the streets of the cities of the United States.

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1981 FOREIGN TRADE PROBLEMS, RESULTS EXAMINED

Budapest KULGAZDASAG in Hungarian No 4, Apr 82 pp 3-11

[Article by Lajos Berenyi, main department chief, Ministry of Foreign Trade, and Imre Bakonyi, department chief, Ministry of Foreign Trade: "Our Foreign Trade in 1981"]

[Text] In their article the authors provide information about the characteristic motifs of our foreign trade last year. But it is not appropriate to judge last year's achievements simply in comparison to 1980 because the economic policy line followed since 1979 provides the background for them and the most essential element of this line is the effort aimed at a gradual improvement of the foreign economic balance. From this viewpoint we can see that the foreign trade achievements of 1981 are linked without a break to the process characterizing the preceding 2 years. Non-ruble accounting trade in 1981 met the most essential goal, the process of improving the balance has not faltered since 1979. In the ruble accounting relationship, however, trade did not reach what was planned in either export or import. But as a whole the balance requirements were met. Even taking into consideration the difficult external conditions, 1982 places a high requirement before our foreign trade if it is to achieve the goal, a further improvement in the balance. This is especially true in non-ruble accounting trade. The condition for successful fulfillment of the task is an optimal concentration of forces in the tools system and harmony in execution in regard to both guidance and enterprise activity.

As a whole foreign trade last year came up to what was planned. In the background of this we find external conditions less favorable than hypothesized and differing accomplishments in the several areas.

The Situation of the World Economy in 1981

When determining the foreign trade tasks for last year we started from the supposition--uniformly supported by various forecasts--that the 1980 recession

in the capitalist economy would be replaced by a mild upturn (2-3 percent) in the second half of 1981. We calculated that this would be differentiated by region and product group and thus that insurmountable obstacles would not be placed before the realization of our plans from the external side.

The expected upturn did not take place in the economies of the capitalist countries last year. This was the direct result of the economic policy followed in most developed capitalist countries, in the center of which stood a moderation of the rate of inflation. Opposed to the modest results achieved in this area we find a prolonging of the recession and an increase in and high ratio of unemployment.

How did all this affect Hungarian foreign trade? The effect differed by region and commodity group but the common aspect was that the developed capitalist countries in general tried--where they could--to ease their internal economic troubles at the expense of foreigners. A strengthening in protectionism serving to protect the domestic market and domestic production followed from this; there was an increase in antidumping measures initiated against foreign shippers and in phenomena suggestive of discrimination.

According to preliminary data the economic decline in our most important customer market in the capitalist world, western Europe, was 0-0.5 percent, and even greater in the countries of the Common Market. Economic growth in the United States reached an annual level of 1.5-2 percent but the recession returned in the second half of the year. In the developed capitalist countries as a whole 1981 economic growth can be put at 0.5-1 percent.

World trade stagnated in 1981; within this the imports of western Europe declined, primarily in regard to industrial articles. The negative phenomena of the world economy strengthened primarily in the less progressive areas (metallurgy, light industry and some branches of the chemical industry and machine industry) but the foodstuffs economy was affected also--as a result of personal consumption hardly expanding. For a long time 65-70 percent of Hungarian export in the non-ruble accounting sphere has been made up of products of the so-called crisis industries (metallurgy, light industry), foodstuffs articles largely burdened by the agricultural protectionism of the EEC and other products sensitive to changes in the business cycle (such as chemical industry and machine industry consumer articles). In the sharp competition it is primarily the weak and medium competitive shippers who are forced out of a market which is not expanding, and in places contracting. The majority of our enterprises can be put in these two categories.

Cooperation with the socialist countries continues to play a stabilizing role in our foreign economic contacts. The negative phenomena of the capitalist economy do not influence the continuity of this directly or fundamentally, but they made possible expansion of mutual trade at a lower rate than customary in earlier years--an effect enhanced by a moderation in production in socialist countries also, a reduction in the export goods base, and reduced internal use (investment activity) which moderated import demand.

## General Characteristics of Foreign Trade in 1981

It is not appropriate to judge the results achieved last year in the area of foreign trade simply by comparing them to 1980. The economic policy line followed since 1979 provides the background for the tasks of last year and the most essential element of this line is the effort aimed at a gradual improvement of the foreign economic balance. From this viewpoint we see that the foreign trade performance of 1981 is linked without a break to the process characterizing the previous 2 years.

From the side of internal economic processes the moderation in use had the determining role in the improvement in the balance which has lasted since 1979. This effect was especially strong in 1979; it weakened substantially in 1980 and 1981.

We can expect less and less from the reduction in internal use in regard to improving the external balance. Maintaining the standard of living--which was the other fundamental goal of the Sixth Five-Year Plan--means that a further moderation in internal use can be accomplished only at the expense of accumulation, and there are limits to this also. Thus, in the years ahead, an improvement in the balance can and must be based on the production sphere, instead of the distribution sphere; this is where income comes into being in the first place. So the road to consolidating the balance of the economy leads through an increase in the income producing capability.

The past year did not yet bring a satisfactory change in regard to improving the so-called qualitative aspects of foreign economic activity. Competitiveness is not adequate in general; non-ruble accounting export--especially in regard to industrial products--is for the most part not a deciding factor in increasing production. This is illustrated by the fact that in 1981 industrial production increased by 2.3 percent while the volume of non-ruble accounting export of industrial products (not counting the food industry) increased by 1.5-2 percent. This was characterized primarily of the production and export of machine industry and light industry articles; an opposite interrelationship developed in the chemical industry last year.

In essence trade in 1981 changed in harmony with our plans; despite external conditions less favorable than in the preceding year--and less favorable than projected--the balance continued to improve. This is a respectable accomplishment in today's world, the value of which is not diminished by the fact that there were different results in different areas (for example, food-stuffs and industry). It is also positive that the terms of trade in non-ruble accounting trade improved by more than 2 percent, as opposed to the expected minor deterioration, while the deterioration in the terms of trade in ruble accounting came to what had been calculated.

Table 1. The Development of the Foreign Trade Balance (in billions of forints, at current prices, contract parity)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Ruble accounting	-14.1	-12.2	-14.3	-10.2
Non-ruble accounting	-35.8	- 3.6	+ 6.8	+ 8.5
All trade	-49.9	-15.8	- 7.5	- 1.7

Source: STATISZTIKAI HAVI KOZLEMENYEK, No 1, 1982

All foreign trade last year, at current prices, border parity, came to 613.7 billion forints, thus exceeding that of 1980 by 5.6 percent. Within this, export increased by 6.8 percent while import increased by 4.8 percent. Measured at the preceding year's prices the growth in export was 3 percent and that of import was 0.3 percent. Thus the figures speak of a balanced growth.

There was a significant change, as compared to 1980, in the distribution of trade by the chief groups of countries--primarily in export--which was in the opposite direction from the change in the preceding 2 years.

Among the socialist countries we did precisely one-third of all export with the Soviet Union while our largest trading partner accounted for 28.6 percent of the import. Our second most important socialist partner continues to be the GDR, which had a 6.9 percent share in export and a 6.7 percent share in import.

The shift in ratio, as compared to 1980, in trade with non-socialist countries took place between the developed and the developing countries (see Table 2).

Table 2. Distribution of Foreign Trade (by country of origin or destination, in percent)

	<u>Export</u>				<u>Import</u>			
	1978	1979	1980	1981	1978	1979	1980	1981
Socialist countries	60.9	57.6	55.1	58.1	51.7	53.4	50.6	51.5
Non-socialist countries	39.1	42.4	44.9	41.9	48.3	46.6	49.4	48.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Year books and monthly publications of the KSH [Central Statistics Office]

The recession of the capitalist economy--with all its other consequences already mentioned--affected most directly our export to developed capitalist countries, the value of which (calculated in forints) fell by about 8 percent, while the import deriving therefrom increased by nearly 5 percent. As a result the passivity of trade with these countries increased. In the background of this process was a further deterioration of the balance in the western European zone--primarily in regard to the EEC--with an improvement of the balance in regard to the United States, Canada and Japan.

This difference is explained in part by contrary changes in the business cycle and in part by the more liberal trade policies of the latter countries.

Table 3. The Development of Foreign Trade With the Nonsocialist Countries (by country of origin or destination, in percent)

	<u>Export</u>		<u>Import</u>	
	1980	1981	1980	1981
Developed capitalist countries	78.4	72.3	81.4	83.0
Developing countries	21.6	27.7	18.6	17.0
Total	100.0	100.0	100.0	100.0

Source: Year books and publications of the KSH

Our most significant developed capitalist trading partner--and our second largest trading partner--remains the FRG, the importance of which in total import continued to increase, to 11.8 percent. It also stands in first place in export (with 8.7 percent), but its share decreased as compared to the preceding year. The list continues: Austria (5.8 and 4.3 percent), Italy (3 and 3.3 percent), USA (2.5 and 1.5 percent) and Switzerland (2.4 and 1.5 percent). The share of Italy and Switzerland decreased in both import and export; that of Austria increased in import and remained unchanged in export; while that of the USA increased quickly in export but fell in import.

In regard to the developing countries the Latin American and African countries increased their weight in import, at the expense of the Asian countries. Export to African countries expanded more quickly than the average for developing countries, export to Asia remained around the average, while export to the Latin American region increased with a dynamic below the average. In sum, trade with the developing countries as a whole was a significant factor in 1981 in improving the balance, thanks to the dynamic growth of export. Our most significant partners in the developing world in regard to import are (percent of share in parentheses) Brazil (2.8), Iran (1.4) and Pakistan (0.5) and in regard to export they are Iraq (2.5), Iran (1.4), Libya (1.1) and Algeria (0.8).

## The Non-Ruble Accounting Relationship

In regard to the most essential goal non-ruble accounting trade changed in 1981 according to what was prescribed in the plan--the improvement in the balance, which has lasted since 1979, was not broken last year. It is also true that the magnitude of the improvement lagged somewhat behind what was stipulated in the plan but the state of the balance consolidated further.

Our export increased by 4.7 percent; this is similar to the increase achieved in 1980 but is below the planned value. The difference--in regard to export as a whole--is entirely the consequence of lower volumes because the development of prices was near to what had been planned.

Among the various chief commodity groups the increase in the export of food-stuffs products was swiftest; the export of materials, semifinished products and parts even decreased in absolute terms. As a result of this development of export there were changes in the structure of export which were more significant than preceding years and they deviate--primarily in scale--from what was planned for 1981.

Table 4. Development of the Structure of Non-Ruble Export (in percent, on the basis of current price data)

<u>Chief Commodity Groups</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
I. Fuels; electric power	5.6	6.5	6.9	6.7
II. Materials, semifinished products, parts	35.6	38.5	37.8	33.6
III. Machines, transport tools, other investment goods	11.7	12.1	11.2	12.1
IV. Consumer industrial articles	18.1	16.1	15.4	14.6
V. Food industry materials, live animals, foodstuffs	29.0	26.8	28.7	33.0
Total	100.0	100.0	100.0	100.0

Source: KSH publications

The smaller than planned export derived primarily from the export of metallurgical and light industry products. The export of ferrous metallurgy products (sheet, wire, steel section, etc.) decreased by about one-tenth and there was a decrease in prices here of similar magnitude. In the area of light industry products there was a slackening of sales of cotton fabric, knit goods, ready-made goods, and leather and shoe industry articles in the non-ruble relationship.

The export of chemical industry products--especially nitrogen artificial fertilizer--developed favorably, although deliveries slackened off for a few product groups (for example, PVC powder and rubber industry products) due to a decrease in demand and prices.



Sales of machine industry products increased at a rate around the average. The export of transport tools declined. The decrease in foreign consumer demand can be felt, for example, in the decrease in the export of refrigerators and washing machines. It can be evaluated positively, on the other hand, that sales of chemical industry and agricultural machines and instrument industry products increased in 1981.

A fundamental factor in the adequate growth of our export was that the volume of sales of foodstuffs products increased by more than 10 percent with a favorable price development so that at current prices sales increased by one-fifth. This product group provided about three-quarters of the export increment. It is to the credit of the work of the foreign trade enterprises that they signed for a significant part of these products at a time which greatly contributed to getting the good prices. The increase in deliveries was especially significant for wheat, slaughter animals, slaughtered poultry, certain types of meats, vegetable oil and fresh fruits and vegetables.

The 1981 development of the structure of our export shows that the recession of the capitalist economy affects primarily the export of our industrial products. But a more detailed analysis of the several areas also shows that the inadequate competitiveness of our industry export strengthened the effect of the external factors more negatively than was supposed.

Our non-ruble accounting import exceeded what was planned only slightly as a whole. An increase in volume greater than planned and a favorable development of prices contributed to this.

Import increased by 4.4 percent in 1981. The import of fuels decreased; that of products belonging to the other chief commodity groups increased.

More significant changes, similar to those in export, did not take place last year in the structure of import. But it was an essential element that, in contrast to the trend of the last 3 years, the share of materials and semi-finished products decreased while that of machines increased.

Table 5. Development of the Structure of Non-Ruble Import (in percent, on the basis of current price data)

<u>Chief Commodity Groups</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
I. Fuels, electric power	7.7	9.0	5.9	4.5
II. Materials, semifinished products, parts	56.0	57.0	61.5	60.4
III. Machines, transport tools, other investment goods	16.3	15.1	12.8	13.5
IV. Consumer industrial articles	6.2	6.0	6.5	8.0
V. Food industry materials, live animals, foodstuffs	13.8	12.9	13.3	13.6
Total	100.0	100.0	100.0	100.0

Source: KSH publications

Machine industry products account for the most significant part of the import increment. This includes parts, making up the bulk of the increment, certain investment machines (chemical industry, textile industry, agricultural, metallurgical) and some of the consumer industrial articles supplied to the populace (radios and tape recorders). The increase in the other large group of consumer industrial articles (knit goods, ready-made clothing) also served to better supply the populace. Acquisition of raw materials and semifinished products increased only very moderately (iron ore, pig iron, steel pipe, polyethylene, paper, cardboard, etc.). Maintaining the level of import of foodstuffs products hides the fact that there was a decrease in the volume for a few articles (for example, fodder grain and rice) and an increase for others (for example, cocoa, tobacco, feed concentrates).

The decrease in the ratio of fuels (coke, gasoline, fuel oil) shows that energy use by our economy has moderated; one component of this is certainly more thrifty use.

#### The Ruble Accounting Relationship

Trade in 1981 did not reach what was planned in either export or import. As a whole export and import developed in harmony with the balance requirements.

Export increased by 8.9 percent; this is made up of a 4.7 percent price increase and a 4 percent increase in volume. Export of all chief commodity groups increased, with the exception of that for machines, which remained at the 1980 level.

The decrease in the importance of machines and the increase in the ratio of materials and parts meant a significant change in the structure of export. These changes are contrary to the trend of the preceding 3 years.

Table 6. Development of the Structure of Ruble Export (in percent, on the basis of current price data)

<u>Chief Commodity Groups</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
I. Fuels, electric power	0.6	0.7	0.5	0.7
II. Materials, semifinished products, parts	23.5	22.4	22.6	24.2
III. Machines, transport tools, other investment goods	43.1	45.6	46.0	42.1
IV. Consumer industrial articles	18.6	17.2	16.9	17.7
V. Food industry materials, live animals, foodstuffs	14.2	14.1	14.0	15.3
Total	100.0	100.0	100.0	100.0

Source: KSH publications

The quantity of metallurgical and chemical industry materials increased considerably in our export. The export of consumer industrial articles and

foodstuffs products increased also. In 1981 we tried to counterbalance the deficit arising in our import of fuels by increasing the volume and price for these latter two chief commodity groups. The volume of our machine industry export did not increase but we achieved favorable results in a few areas (for example, in telecommunications and vacuum technology exports).

Our enterprises tried to exploit the possibilities promising to improve the economicalness of export structure. Their price work was adequate; they succeeded in getting price increases greater than planned.

Our ruble relationship import increased by 5.3 percent, but taking into consideration the very significant price increase (9 percent) the volume of import decreased--for the first time since 1976.

The import volume for machines and investment goods decreased more strongly than in 1980, by nearly 15 percent (food industry and agricultural machines, railway traction and freight cars, etc.). This is justified in part by the moderated demand due to the development of domestic investments.

Table 7. Development of the Structure of Ruble Import (in percent, on the basis of current price data)

<u>Chief Commodity Groups</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
I. Fuels, electric power	18.5	21.5	25.5	27.8
II. Materials, semifinished products, parts	38.6	35.1	34.5	35.3
III. Machines, transport tools, parts [as published]	29.0	30.0	27.1	22.4
IV. Consumer industrial articles	11.2	10.6	10.4	10.8
V. Food industry materials, live animals, foodstuffs	2.7	2.8	2.5	3.7
Total	100.0	100.0	100.0	100.0

Source: KSH publications

Despite the fact that the weight of fuels increased in terms of value their volume moderated (petroleum, natural gas, gasoline, fuel oil).

The quantity of materials and semifinished products imported increased somewhat (iron ore, flat glass, ammonia soda, PVC powder, polyethylene, artificial fertilizers, etc.).

The increase for foodstuffs articles also derives in part from price increases, but there was a significant increase in the volume of sugar, distilled alcohol and beer imports, among others.

The majority of our socialist partners are in a stage of economic growth similar to ours. This is characterized by conversion to an intensive phase, by a lack of capital hindering the swift elimination of bottlenecks and the relatively slower economic growth deriving from these things, which involves stagnation of the export goods bases in some areas and a decrease in places.

This represents a problem for us primarily in regard to materials and products of an energy character. But we are trying to counterbalance this with more thrifty material use and by developing our internal production structure. From time to time, however, it caused a significant problem even in 1981 that the delivery of a few important, allotted import products (for example, coal, coke and wood) faltered or even failed.

#### Prospects for 1982

This year also--following the line which has been valid since 1979--the effort to further improve the balance will stand in the center of foreign trade work. But the external conditions for this are not favorable. Some improvement in the economies of the developed capitalist countries can be expected in the second half of the year at the earliest. The forecasts published in recent months are increasingly uncertain in this respect and it cannot be ruled out that the "mini" boom indicated earlier will occur only in the first half of 1983. For the time being only a few countries (for example, Japan, France and the FRG) have undertaken actions to stimulate the economy, the effect of which may be largely neutralized by the interest rate policy of the United States and the contrary behavior of other countries (for example, Great Britain). Because of all this we cannot expect a relaxation of protectionism or a reduction in other trade policy factors and phenomena holding back our export.

The oil income of the OPEC countries, which have an important place from the viewpoint of our export, can be expected to decline in 1982 as a combined effect of moderating demand and decreasing prices. So here we can count on a relatively shrinking market and increasing competition.

With the generally unfavorable external conditions the prospects for various areas of export differ. On the basis of indications from the enterprises dynamic growth can be expected in the export of machine industry products. Metallurgical export may pick up somewhat also, but for the time being there is no sign of an end to the capitalist market crisis within the foreseeable future. This will continue to leave its stamp on the export performance of our affected enterprises.

The exporting enterprises of the other branch in a difficult situation, light industry, cannot hope for a market improvement either. The consumer market as a whole is hardly expanding; at the same time the competition of some developing countries which produce cheaply is strengthening in regard to Hungarian shippers representing the middle quality category.

External demand will make possible only a very moderate increase in the export of chemical industry articles.

The good results achieved in the preceding year in foodstuffs export can be improved on--realistically--to only a small degree. In part this is a question of the commodity base (for example, in the case of wheat) and in part it is a consequence of prices which are lower than last year.

The quantity of import--in harmony with the planned rate of growth in production and maintaining a balanced supply of goods to the populace--will be greater than last year by 4-4.5 percent.

In regard to prices we are counting on export and import price increases of the same magnitude.

The determining role of the socialist countries in trade will remain. But we cannot count on expanding the volume of ruble accounting import. The least dynamic area--in accordance with the trend established in preceding years--will be mutual trade in fuels and products of a material nature. Machine trade is problematic also, because of the sluggish or moderating investments.

As a whole the signed interstate agreements will provide an adequate framework for fulfilling the prescriptions of a plan which reckons with the circumstances noted.

Taking into consideration the difficult external conditions this year's economic plan places a very high requirement before foreign trade. This is especially true in non-ruble accounting trade. The condition for successful fulfillment of the task is a corresponding concentration of forces, a tools system supporting achievement of the chief goal and harmony in execution in the areas of both guidance and enterprise activity.

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REPORT ON PRICE TENDENCIES IN FOREIGN TRADE

Budapest FIGYELO in Hungarian No 19, 12 May 82, p 6

[Article by Mrs Adam Kiss: "Price Tendencies in Foreign Trade"]

[Text] Demand was stagnant on international commodity markets in 1981, and in many cases it declined. In most industrial and agricultural raw materials a declining price trend was realized, although in the last months of the year something of a rise occurred in certain products. A role was played in the price reductions for raw materials by the fact that, along with a general stagnation in production, the high interest rates gave an incentive to low inventory levels. In the case of agricultural products, the favorable production outlook for next year also lowered the price level.

According to the Hamburg HWWA index which indicates world-market price changes in dollars, the greatest drop, 23.5 percent, occurred in the price of food and luxury goods, and this was followed by an 18.8 price decline in industrial raw materials of agricultural origin. In contrast with the 12.5 percent lower prices for industrial raw materials the previous year, the price level of energy sources rose by more than 8 percent. A permanent oversupply was also characteristic of the market for finished products.

A Delayed Factoring-In

The world market price trends affected Hungarian foreign trade to a different extent in the two main accounting relations. The factoring-in effect of the world market inflation, which arose in wake of the second oil price explosion in our ruble account foreign trade following the well-known price formation of the CEMA countries, was again materialized with a shift in 1981. Last year the price rise was greater than in the previous year, and thus the contractual ruble prices rose by a considerable 12.7 percent in import and 8.4 percent in export. As a consequence of the 3.3 percent decline in 1981 of the ruble-forint exchange rate, the import forint price level rose by 9 percent, and the export level by 4.8 percent, while the terms of trade deteriorated by 3.9 percent, or to a somewhat greater extent than in the previous year.

In nonruble account foreign trade the 1981 declining tendency of the world market price level was realized, which however was influenced considerably by the significant rise in the dollar-forint exchange rate in the case of the

other currencies the considerable decline in the forint exchange rate. The forint price indexes reflecting both the effect of the foreign currency prices and the changes in the exchange rate exceeded the 1980 level by 0.8 percent in import and 3 percent in export.

In nonruble account foreign trade, an improvement occurred in the terms of trade as compared to the small deterioration included in the plan. The 2.2 percent improvement in the terms of trade index contributed to an improvement in the foreign market equilibrium situation.

The forint price index which indicates the combined price change of the two main accounting relations points to a 4.6 percent rise in the price level of imports and a 3.8 percent rise in exports. The foreign-trade terms of trade in trade as a whole deteriorated by 0.8 percent.

### In Forint and Ruble

In the rise of the forint price level for ruble-account imports, an important role was played by the 20 percent rise in prices for energy sources and foods, while in the other main commodity categories prices were 2 to 7 percent higher. The volume of imports declined by 3 percent in 1981 because we imported fewer energy sources and investment goods. At the same time, we increased the import of consumer industrial items and foods.

Table 1. Price Formation of Ruble Account Imports in 1981

A rubel elszámolású behozatal áralakulása 1981-ben			
(1)	Arindex, 1980 = 100		A behozatal százalékos megoszlása
	Forintban (2)	Rubelben (3)	(4)
(6) I. (5)	120,0	124,1	27,8
(6) II. (7)	107,3	111,0	35,3
(8) III. (9)	101,6	105,1	22,4
(8) IV. (9)	101,2	107,8	10,8
(8) V. (9)	120,2	124,3	3,7
(10) Összesen	109,0	112,7	100,0

### Key:

- |                                       |                                                          |
|---------------------------------------|----------------------------------------------------------|
| 1. Price index                        | 6. Materials, semifinished products, spare parts         |
| 2. In forints                         | 7. Machinery, means of transport, other investment goods |
| 3. In rubles                          | 8. Consumer industrial items                             |
| 4. Percentage distribution of imports | 9. Food industry materials, live animals, foods          |
| 5. Energy sources, electric energy    | 10. Total                                                |

The prices for petroleum, natural gas and coal briquet rose by 24 to 26 percent, exceeding the average for energy sources. The forint price of electric energy rose all in all by 4 percent. We imported basic materials at 12 percent higher prices, and semifinished products and spare parts at 4 percent higher prices. Among raw materials the price for ferro-alloys rose by 46 percent, crude iron ore and synthetic rubber by 25 percent and 29 percent respectively, pig iron and crude phosphate by 15 to 16 percent.



The price level for certain main commodity groups in ruble account export, with the exception of foods, rose to a greater extent than in import, but as a consequence of differing commodity composition, the average price level of export rose to a lesser extent. Export volume was 4 percent greater than a year ago.

Table 2. Price Formation of Ruble Account Exports in 1981

A rubel elszámolású kivitel áralakulása 1981-ben			
(1) Árindex, 1980 = 100		A behozatal százalékos megoszlása	
	Forintban (2)	Rubelben (3)	(4)
(6) I. (5)	121,0	121,1	0,7
II. (7)	107,4	111,1	24,2
(8) III. (7)	102,4	105,9	42,1
IV. (9)	105,2	108,8	17,7
V. (9)	106,8	110,4	15,3
(10) Összesen	104,8	108,4	100,0

Key:

- |                            |                                   |
|----------------------------|-----------------------------------|
| 1. Price index             | 6. Materials, semifinished        |
| 2. In forints              | products, spare parts             |
| 3. In rubles               | 7. Machinery, means of transport, |
| 4. Percentage distribution | other investment goods            |
| of imports                 | 8. Consumer industrial items      |
| 5. Energy sources,         | 9. Food industry materials,       |
| electric energy            | live animals, foods               |
|                            | 10. Total                         |

Within the 7.4 percent higher than last year's price level for materials and spare parts that make up one-fourth of the value of exports, the price of raw materials rose by 14 percent, and semifinished products by 8 percent. The selling price of bauxite, foundry aluminum and alumina, and also to a considerable extent aluminum products and rolled steel rose outstandingly by 19 to 27 percent. Among chemical industry products, there was a significant price rise of 16 to 18 percent for propylene and ethylene.

Among industrial finished products, the price level of machinery and machine equipment, exported in smaller volume than the year before, increased to the least extent, or by 2.4 percent. On the other hand, we sold consumer industrial items at a 5.2 percent higher than average price. Measured in forint prices, the price index for foods rose by 6.8 percent.

#### Price Indexes of Nonruble Account Trade

The rise of 0.8 percent in the forint price level on nonruble account imports derived from the unchanged price level of materials and food which make up the greater part of the trade, from the smaller price increases for industrial finished products, and from the important 29 percent price increase for energy sources. The volume of imports which had declined in the previous 2 years, increased by 4 percent as compared to 1980.

Table 3. Price Formation of Nonruble Account Imports in 1981

A nem rubel elszámolású behozatal áralakulása 1981-ben				
(1)		Arindex forintban, 1980 = 100	(2)	
			Behozatal %-os megoszlása	
(4)	I.	129,1	(3)	4,4
	II.	99,9		60,5
(6)	III.	101,8		13,5
	IV.	100,6		8,0
(8)	V.	100,2		13,6
	Összesen	100,8		100,0

Key:

- |                                                     |                                                             |
|-----------------------------------------------------|-------------------------------------------------------------|
| 1. Price index in forints                           | 5. Machinery, means of transport,<br>other investment goods |
| 2. Percentage distribution<br>of imports            | 6. Consumer industrial items                                |
| 3. Energy sources,<br>electric energy               | 7. Food industry materials,<br>live animals, foods          |
| 4. Materials, semifinished<br>products, spare parts | 8. Total                                                    |

Because of its slight ratio in trade, the important rise in the price of energy sources influenced the average price formation only in a small way. (The price of bituminous coal and anthracite rose by 33 percent.) The import of energy sources, however, decreased by 40 percent.

The volume of material imports, which make up 60 percent of total imports and with a forint price level similar to that of last year, increased by about 3 percent. We purchased less raw materials while our imports of finished products and spare parts increased.

The prolonged crisis on the steel and nonferrous metals markets was related to the fact that it was possible to buy many metallurgical products substantially cheaper. (An exception was zinc.) The declining demand also reduced the purchase price of a good part of the chemical industrial products. (Polyethylene, synthetic material granulates, PVC powder and polyamide could be bought 9 to 18 percent cheaper.) At the same time the price of phosphorous fertilizer rose by 13 percent, and the price of blast furnace coke by 12 percent.

With an essentially unchanged forint price level for agricultural products and foods, the price indexes for certain products were widely spread. A world market oversupply is indicated by the fact that we were able to buy cacao beans and unroasted coffee for 21 percent and 18 percent less respectively, whereas the price of milled rice, soy meal, oranges and bananas rose by 11 to 16 percent.

Along with a rise of 3 percent in the forint price level, the volume of export expanded by almost 2 percent. The export price of machinery and consumer industrial items rose to a small extent, 2.7 percent and 2.1 percent respectively. On the other hand, the export price of foods rose by an above-average 7.8 percent, and the price of energy sources by 19 percent. Marketing difficulties on the capitalist markets affected primarily our material exports, with the export forint price level of materials and semifinished products declining by 2 percent.

Table 4. Price Formation on Nonruble Account Exports in 1981

A nem rubel elszámolású kivitel áralakulása 1981-ben			
(1) Árindex forintban, 1980 = 100		(2) Behozatal %-os megoszlása	
I.	(3) 119,1		6,7
II.	(4) 98,0		33,6
III.	(5) 102,7		12,1
IV.	(6) 102,1		14,6
V.	(7) 107,8		33,0
Összesen	(8) 103,0		100,0

Key:

- |                                                  |                                                          |
|--------------------------------------------------|----------------------------------------------------------|
| 1. Price index in forints                        | 5. Machinery, means of transport, other investment goods |
| 2. Percentage distribution of imports            | 6. Consumer industrial items                             |
| 3. Energy sources, electric energy               | 7. Food industry materials, live animals, foods          |
| 4. Materials, semifinished products, spare parts | 8. Total                                                 |

In the past year we exported 140,000 less tons of rolled steel and at 12 percent lower prices. The depressed prices on the aluminum markets were reflected in the 21 percent lower price level for foundry aluminum. Among chemical industry products, the export price of bitumen, propylene, xylene, and nitrogen fertilizers rose by 10 to 18 percent, but on the other hand the price of PVC powder declined by 22 percent, and basic pharmaceutical materials by 5 percent.

The 2.7 percent increase in the price level of nonruble account machine export was accompanied by an 11 percent expansion of exports. Export to the developed capitalist countries declined, but the volume of machine export to the developing countries increased considerably.

The 2.1 percent rise in export prices for consumer industrial items developed in such a way that we sold fewer commodities at lower prices in the developed capitalist countries, while in the developing countries we succeeded in obtaining a price increase.

Similarly to last year, an important role in export development was played by agricultural and food products for which the 7.8 percent rise in the price level was accompanied by a 12 percent volume increase. At higher prices, wheat exports increased 1.7 times. Also the possibilities for marketing slaughter animals and animal products were favorable. We exported somewhat more in the way of slaughter animals and poultry and somewhat less in meat at 10 percent higher prices. In response to the recovery on the vegetable oil market, the export price of sunflower oil rose by 7 percent, and the volume sold increased by 30 percent.

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UNIONS' INPUT IN GOVERNMENT DECISIONS VIEWED

Budapest NEPSZAVA in Hungarian 1 May 82 p 3

[Article by Laszlo Diosdi: "With Mutual Responsibility; What the Council of Ministers and the Leaders of the National Council of Trade Unions Discuss and How They Do It"]

[Text] It was at the price of no few and often painful, agonizing lessons that the trade union movement in our homeland has occupied for some time already its historically appropriate place, following what the Hungarian Socialist Workers' Party has recognized: A trade union movement becomes faceless and without function if it does the same thing in the same way as the party and government.

The trade unions in Hungary have possibilities and rights--standing international comparison also--with the aid of which, constantly renewing their own methods also, they can satisfy the increased requirements. The rights of the trade unions are the rights of the workers, they act in their name, as their representative, on the basis of their authorization and thus do they decide and represent opinions and positions.

The trade union movement--with the fullest commitment to the cause of socialism--not only participates here in aiding the realization of policy, but also forms and develops policy. Amidst our socialist relationships the party, government and trade union work together for a common goal, but all three serve the worker class, the people, in accordance with their social mission according to their own calling.

Let us only repeat that important assertion of the 24th congress of Hungarian trade unions that "as a result of a long process--not yet completed--the relations of the trade unions to state power have been regulated." The chief substantive characteristic of this relationship is that the party--in developing and in carrying out its policies--builds on the independently working trade unions, which offer the sum and summary of the experiences and opinions of the workers for synthesis and debate. It is also an essential characteristic of this relationship that already today it is not possible to decide any question affecting the living and working conditions of the working people, affecting social development as a whole, without the trade unions. This very important element is built into the practice of the guidance of our society at every level of decision making.

Where the decisions affect factory or place of work levels public opinion, the trade union members, generally have the information needed. More rarely they are informed when the decision is born with debate, from the clash of contrary opinions. But there is less information about the part taken by the trade union in decisions at the highest level of state power, about the position represented by the trade union when working out some plan.

But it has been a well-proven practice of our governmental work for more than 20 years for the Council of Ministers and the leaders of the SZOT [National Council of Trade Unions] to discuss at a joint session every essential question affecting the living and working conditions of workers or the living conditions of the populace, debating the ideas and decisions. This is an important manifestational form of the activity of the trade unions in forming and influencing policy. These meetings, which always do worthwhile work, are held regularly. It is also a practice of more than 20 years for a representative of the SZOT to participate in meetings of the government. Cooperation is also regular and of great significance in work conferences of branch trade unions and ministries, of megye state and trade union leaders and directors and trade union committee secretaries.

#### As Sharers in the Workers' Power

But let us on this occasion remain at the highest level, cooperation between the government and the SZOT. The representatives of the government and the SZOT meet regularly not so that they can say nice things to one another from time to time--no one needs this--but rather to make decisions, representing responsible positions. Because responsibility is the basic position of the government and of the leaders of the SZOT. So how is it that they often argue with one another? For what or from what can there be debate or differences of view?

The trade unions are committed to the power, to socialism, but they are not committed to every measure. Thus, as sharers of the power, they critically examine every planned measure and when developing their position they weigh as the most important factors: Is the decision justified, how will it affect the workers, and how will it affect those of them with the smaller incomes? The independence of the trade unions is expressed most strikingly in this and in the realization of the decisions. This is an expression of their authority, because if the decisions of some state organ violate the law or curtail the rights of workers then the trade unions take determined action with every tool at their disposal, up to the veto rights.

But in the majority of cases the differences of opinion do not lead--and in a lawful way should not lead--to opposition, because the trade unions are not acting against something but rather for something. Desiring a common goal involves and presumes the possibility of compromise, because usually the debate is not about whether this or that measure is important but rather about which is more important. And usually the government and the leaders of the SZOT are not trying to persuade each other about which of the needs arising are just but rather about how to rank order the just needs knowing the material

possibilities available. And since the essence of the debates is not some sort of false prestige concern but rather to work out decisions which advance the cause they often give birth to compromise solutions which try to express ever more fully social justice, at the same time taking into consideration the changes in the surrounding world, which have an especially great effect on us, and the state of our internal situation, our ability to bear the burden.

At the discussion held in the last few years the agenda always included an evaluation review of earlier agreements, of the fate of the trade union proposals. Also constantly on the agenda was a weighing of the government and joint work done in the preceding plan period and an analytical examination of the coming plan periods and the economic policy and social policy goals.

This would have provided sufficient themes for the meetings. But there was always something which concerned the trade unions and public opinion more than the rest. These things were given a special place at the joint meetings of government and trade union leaders.

Without regard to rank order or temporal sequence I have selected a few of them to list as a reminder. The themes included the supply of goods to the populace, the situation of construction industry workers, manpower management and the problems of regrouping manpower, price measures, the development of recreational facilities, urgent questions of the living and working conditions of miners, experiences in cooperation between the state and the trade unions, the possibility of further progress, a comparison of the situation of certain strata with our standard of living policy, and proposals of the congresses of branch of industry trade unions and of the 24th congress of Hungarian trade unions the realization of which required government level decision--primarily because of their material aspects.

#### The Openness of the Meetings

The continuity of the work can be felt in two ways. In the first place, in the interest of preserving our standard of living, the trade union movement is always seeking methods and possibilities with which it can aid state decisions serving to augment our material goods; and this can be felt also in how attention is called again and again to those working strata in a disadvantageous situation amidst economic conditions constantly becoming more difficult, the situation of pensioners and those with large families, and in how corrections are initiated in their interest.

In general the tersely worded communiques published about the meetings say little or nothing about whether agreements were made smoothly or whether there was debate. The tersely worded statements do not indicate if the solution was a compromise--as is most often the case--which came into being by virtue of a mutual listening to arguments. In any case, public opinion needs more than bare reports. Not because people want to bear gossip and not because they want to know how this or that minister or this or that trade union leader argued. But rather because just as there is a healthy need for

openness in all trade union work so there is a similar need for public opinion, the trade union membership, to be better informed about work at the government-SZOT level.

The most recent, regular meeting of the Council of Ministers and representatives of the SZOT, as noted in the communique, was a traditional one in every respect. With one exception, the presence of journalists, which now makes it possible for me to try, at least approximately, to show the mood of the joint session and faithfully record the essential motifs of it. We journalists participated in such a meeting for the first time. Naturally, earlier, we also felt a lack. Why was there no more detailed information? But now we could experience that it is not so simple to present these questions to public opinion. Although there were no secrets in what was said it is still not easy to oppose publicly the opinions of the SZOT and the government in individual questions because this could cause misunderstandings. As a whole it was obvious from the atmosphere of the entire discussion that neither the government nor the leaders of the SZOT were seeking some sort of distinction. Service to the cause was the essence--mutual responsibility and common action.

The first theme was a report on the tasks mutually designated at the last meeting, stressing among these the modification of the resolution concerning membership in the basic staffs and trade union help for the government's energy conservation program. It was the trade union opinion concerning experiences with modification of the basic staff regulations that practical implementation was not without problems. Many saw in it a devaluation of the value of work done in one place, not least of all because in many places the ideas in the preliminary draft were not debated at the democratic forums. For this reason there is much misunderstanding because it is obvious that a man finds it more difficult to accept a fait accompli than something which he helped to decide, in which his opinion was asked and taken into consideration.

There was no debate on this. The chairman of the Council of Ministers felt it necessary to stress, however, that the democratic forums are to be used not out of some sort of courtesy but rather in accordance with their authority and mission, to debate, collect opinions and decide important questions affecting the workers.

#### Debates and Exchanges of Opinion

Similarly there was no debate concerning the trade union ideas connected with the government's energy conservation program. The government leaders acknowledged with thanks the initiatives of the organized workers and when it was mentioned that it might be worth while to recognize outstanding accomplishments materially and morally there was immediate government approval of this.

"In exchange" the representatives of the government asked the leaders of the SZOT to use their own channels to make the workers sensitive to the fact that energy conservation is not a task for some definite time but rather a



continuing government program in the execution of which it would be open to and always sensitive to citizen and trade union contributions.

How did the current economic year get started? First of all the government had something to say about this to the leaders of the SZOT. The calm, tranquil mood proved the well founded nature of the planning but before all else the facts speak for themselves. But the conference did not register mutual satisfaction because, as the reflective analysis showed, the external conditions for management have become even more difficult than we expected and the truth is that we ourselves could have worked better and more effectively--knowing the possibilities.

The enterprises gave out a good part of the sums intended for wage development at the beginning of the year but it does not seem even yet that wage distribution is in harmony with the interests of the economy as a whole, is differentiated in the interest of the goals decided upon. The SZOT comment: There are great differences among trades and enterprises in the wage increases at the beginning of the year. So if it is important to pay attention at the level of the national economy it is at least as important to pay attention to those falling behind in wages, including those strata--certain categories of the technical intelligentsia, printers, miners--for whom a wage increase would be especially justified.

There was no polemic about which strata now merit greater attention but rather about whether the names of the trades just mentioned should be made public. The unanimous opinion of the trade union was yes; it was the opinion of the government that all the material resources needed for wage development do not yet exist and without these a report might easily give rise to unfounded illusions. We must still produce the material tools, plainly put, the money. With their original proposal on development the trade unions supported the larger sphere of workers, but in light of the situation they had to admit that there is no cover for this now. The agreement, finally, was the sentence in the communique which named the trades, but indicated the problems of the government also.

The first secretary of the SZOT--precisely because it sometimes happens that one can find a difference in the opinions of the SZOT and the government concerning the standard of living of certain worker strata, due to circumstances and changes in life--recommended that the trade unions provide more indicators and analyses and harmonize experiences on the basis of these. The proposal found an open door because the government members were also of the opinion that more experience aids better founded decisions. For this reason it is not necessary to wait for official occasions in regard to important indicators; these must constantly be exchanged between state organs and trade unions during consultations.

#### A Dialog of Partners

In this phase of the conference it was completely obvious even to an outsider that this was not a dialog of parties with opposing interests but rather an exchange of ideas between the government and the trade unions filled with

mutual understanding, often they understood one another from half a word, where the starting point was the already mentioned mutual responsibility. There could be and often were differences in thinking, in experiences, in rank ordering decisions and needs, but the goal was the same: To see the economic condition of the country get stronger, and from this increase to make distribution increasingly just.

It would be easy to sit down at such a meeting with a wish list, and give a lesson to the regime. But those proposals and requests formulated by the trade unions took into consideration the same conditions as the government. This is how the debate developed on the outstandingly important theme of maintaining the standard of living, that there should be better coordinated cooperation than at present between the government and the SZOT in analyzing the standard of living, in harmonizing experiences and in stressing common critical points.

Do these words sound cold? We are talking about millions and billions of forints. About planning budget allocations, every one of which affects thousands and hundreds of thousands of people. Affect hundreds of thousands of individual lives.

The government chairman said in connection with this difficult theme: "What is important in weighing every item, every proposal, is that the workers should feel that in our socialist social policy we are striving to express social justice."

And if I had not had occasion before, in following the course of the discussion, I had now occasion to feel, in taking up more circumscribed interests, a debate approaching passion. The subject was resort construction. Trade union opinion was offended that state organs had a say, one way or another, in the matter of resorts built with the money of organized workers, even though it was not in their sphere of authority. Of course there was no trace of resentment, but the government was ready with a counter-argument: The fate of the Balaton is in the competence of the government. The consultation spent a good bit of time on this and on the sometimes anxious zeal of their own organs, but finally the Gordian knot was cut by saying that in the long run there would be an agreement in principle concerning conditions for setting up trade union resorts. The comment of the government chairman at the end of the whole thing was playfully provocative: "But the rules on construction standards are binding for you too." And he added: "As they are for us."

As we have said already, the 13 April joint session of the Council of Ministers and representatives of the SZOT was traditional in every respect; and with our presence we could experience how the government and the leaders of the SZOT seek solutions. One could feel how concretely and ardently and with what great responsibility they discussed the daily, timely and long-range questions. Opening the joint session to the press was a substantial step forward in the openness of trade union work. In seeing that the organized workers get worth while information from every level about how their opinions contribute to the decisions of state power and how the leading organs of the trade unions carry out interest representation.

8984  
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ROLE OF CENTRAL PLANNING DURING ECONOMIC REFORM ANALYZED

Warsaw GOSPODARKA PLANOWA in Polish No 1, Jan 82 pp 1-6

[Article by Tadeusz Kierczynski and Urszula Wojciechowska: "Central Planning During the Introduction of Reform"]

[Text] The authors' purpose is to present a comprehensive proposal for the content and methods of establishing the central plan in the interim period.\* Therefore this article has the nature of an applicable draft, which accounts for the absence of more detailed explanation of the premises of the proposals presented. By interim period, the authors mean the years during which a state of deep economic imbalance will persist in Poland. Since this definition certainly applies to 1982, this will be the year covered in the text. A prolongation of this state will make the proposals contained in the article pertinent to the following years. In view of the fact that the planning methodology has already been doomed, our draft is at the same time a proposal for changes in the methodology for the coming years of the interim period.

I. Major Features of the 1982 Plan

The situation in which the development of the plan for 1982 will proceed is primarily characterized by a high degree of uncertainty with respect to the domestic and foreign conditions of economic functioning during the plan period.

Despite such unfavorable conditions, the plan must assure concentration of the scanty resources at the disposal of the economy in order to achieve two ends: first, to assure the development of the basic production without which normal functioning of the country, the satisfaction of the major needs of the populace and necessary exports are impossible; second, to initiate (and possibly to greatly advance) structural changes in two sectors: a) in coal mining with technical progress leading to thrifty coal consumption and energy usage, and b) in agriculture with technical progress directed toward better processing and distribution of crops.

The complete futility of central planning in 1980 and 1981 had two causes: the dispersion of constantly diminishing resources and the nature of the plan, which

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\*The text was written in July 1981.

did not respond to changed conditions. The plan for these years envisaged and envisages continuation of all previous production introduced and of all previous directions of technical progress. The plan decrees directives and a division of resources despite the fact that there is no possibility of implementing the directives nor of assuring resources for them.

Adoption of a procedure for establishing the plan, distinguished by the following features, is proposed to remove these shortcomings:

1. The plan should clearly distinguish a forecast part and a directive part. This division corresponds both to the concept of the Team of the Second Commission for Matters of Reform and to the real possibilities open to the planning service in 1982. The forecast part of the plan can be developed by the Planning Commission [PK] and, on its instructions, by a community of experts almost "right now" without waiting for the reform and other premises. The directive part requires periodic decisions concerning the system of functioning of the economy in 1982. These decisions must consider the need of limitation and modification of the directive part of the plan, dictated by the experience of the preceding period showing the futility of the plan directives in their current scope and form, and under conditions of the existence of powerful trade unions and an evolving worker self-government.

In 1982 the decisive (directive) part of the plan will be constructed considerably more stringently than will be necessary in following years. This is a result of the fact that the use of some solutions characteristic of a wartime economy have not yet been eliminated (e.g., ration cards). These solutions were imposed by limitations (analogous to those imposed by war), a severe shortfall of fuels and materials, a sharp reduction in imports, the need to lower consumption and the need to concentrate investments with an abrupt drop in their levels. Adjustment of the current structure of production and level of consumption is impossible (at least history has no example of this) without distribution indices, restrictions (including ration cards) and productive tasks. In the future, the directive part of the national plan should pertain mainly to controlling structural changes in the economy. However, despite all the difficulties in 1982, these changes must be initiated particularly in the sector of the development of technology to save energy and material, a displacement of the labor force, the development of exports, the development of agriculture and the development of coal mining.

2. The directive part of the plan is formulated in a product [goods and services] form for both tasks and resources. There are no "organizational units" [plant and equipment] (ministries and associations) here in the current traditional concept. The executors of the tasks contained in the directive part of the plan are the enterprises. Downgrading (transmission) of these tasks to the enterprises, along with the allocation of resources, is provided by the ministries and governors in cooperation with branch-type ministries. This is done by concluding one comprehensive agreement specifying both the tasks of the enterprise in 1982 and the allocation (allotment) of resources for this purpose.

On the other hand, the forecast part of the plan will both include a product [goods and services] profile and presage the development of individual economic organizations (associations, unions and ministries).

3. The course of implementation of the directive part of the plan is different in individual divisions. The point of departure is the variant of the plan for the production of basic raw materials and other materials, prepared on the basis of bids from mines, foundries and electrical power plants. This variant is the basis for discussion with these units on signing agreements. On the other hand, the plan for the production of regulated products, standards and basic products for export comes down from above. The enterprises which assure the most beneficial ratios of production to resources will be permitted to implement this plan.

4. The 1982 plan will take form in a situation devoid of long-range plans. This is understandable under the conditions of uncertainty, and attempts to establish a five-year plan would currently be wasted effort. However, it is worthwhile to treat the plan for 1982 as an element in the stabilization program wherever it is needed and wherever there are real possibilities of extending the time frame to 1983. In other words, the plan which we are currently beginning would be developed for 1 year in some elements and for 2 years in others.

5. The economic pattern of an enterprise in 1982 should not be related to the provisions of Resolution No 118, which produced negative effects in both the economic sphere and in social reactions. New measures must be applied in two variants.

Variant I is based on complete dependence of wages on results or on self-financing, which goes hand-in-hand with significant self-government and self-dependence.

Variant II anticipates limited self-financing and, to a considerable degree, the wages are guaranteed by the government. The limited self-financing goes hand-in-hand with the limited self-government and self-dependence.

The choice of the variant for a given enterprise is a matter for discussion and agreement. However, variant I must be treated as preferred in the policy of the center, and variant II as requiring special effort and justification by the enterprise.

6. It is necessary to adopt a firm principle of controlling resource expenditure by means of currency. Concretely this means:

a) an obligation to indicate the source of financing for each allocation and allotment (provision: to finance only from one's own resources, to extend credit and give subsidies at a time of shortage of another's resources);

b) the creation of real monetary funds in situations of previous operation by the right to expend resources (e.g., the currently due or available wage fund must be transformed into a real monetary fund for a bank account);

c) the flow of real monetary sums between the budget and the enterprise for the purpose of verifying and correcting the economic results of the enterprise; a prohibition against making exclusively statistical corrections which affect resource expenditure.

## II. Plan Content

The plan is divided into three parts: forecast (A), directive (B) and special-purpose programs (C). Here is a more detailed characterization of each of these parts.

### A. Forecast Part of the Plan

This part of the plan, in accord with the recommendations of the Team of the Second Commission on Matters of Reform, should be quite developed as early as 1982. The multivariant forecasts under the current conditions of uncertainty are very important for the politicians and decisionmakers on the central level, representative organs, social organizations and, finally, enterprise organization. These forecasts are the premise of discussions and socioeconomic decisions which will be adopted at various levels in 1982-1983. At the same time, these forecasts are not only necessary, but are capable of implementation. This area includes both people (the PK staff and its research facilities and a number of other communities in the country) and mastery of the methods, abroad if not in our country.

The forecast part of the plan should include the following divisions:

#### 1. Socioeconomic Macroproportions:

--variant forecasts of growth in production and national income;

--variants in estimating the income to be divided and the proportions of its division into parts for accumulation and for consumption.

#### 2. Conditions of the livelihood of the populace, the market:

--forecast of the income of the populace and its differentiation with special recognition and consideration of households on the level below the social minimum;

--forecast of the supply of goods and consumer services, anticipated amounts of shortages in major goods groups in 1982-1983 and within the time frame of 5 and 10 years;

--forecast of price increases for consumer goods in 1981-1983;

--analysis of differences in availability to the social and cultural infrastructure (according to types, regions and groups of people).

### 3. Industrial Production:

--forecast of changes in industrial production in the value formulation and in main assortment groups;

--forecast of the formation of industrial production in individual branches (changes in value, assortment groups, supply of materials, employment, degree of utilization of investment production capabilities, exports, and the extent of covering needs).

### 4. Agriculture:

--forecasts of production results in the area of crop and animal production;

--forecasts of economic results in the profile of individual management sectors;

--evaluation of the anticipated fodder situation.

### 5. Relations Abroad:

--variant forecast of growth in exports;

--forecast of imports necessary from both payments areas;

--forecast of the "credit market";

--forecast of formation of foreign prices for main groups of goods imported and exported by us;

--forecast of payments balance.

### 6. Supply and Management of Factors of Production:

--variant forecast of main raw material limitations: coal, energy, the most important imported raw materials and other materials within the time frame of 2, 3, 5 and 10 years;

--forecasts of consequences of different variants in the continuation and maintenance of investments;

--forecast balance of the labor force and employment for 1981-1983 and within the time frame of 5 and 10 years.

### 7. Social Infrastructure:

--forecast of the amount of resources which can be allotted to the development of the entire infrastructure and certain of its elements (apartments and community economy, health, education, science, culture, public transportation, protection of the environment and water economy);

--forecast of the state of the infrastructure and comparison with the extent of threats to it caused by infrastructure deficiencies in individual sectors.

We must aim at the widest possible product [goods and services] scope of forecasts and their detailed expansion. The elements of forecasting in different variants, resulting from a limited amount of resources (a given amount of resources), in which division for specific purposes is examined, should particularly be developed.

#### B. Directive Part of the Plan

1. The production of basic raw materials and other materials, a quantitative and evaluative formulation (in old and new prices) pertaining to two groups:

- a) mineral raw materials (coal, sulphur, copper and zinc) and
- b) energy and other raw materials and basic materials (rolled products, cement, artificial fertilizers, plastics and crude oil refining).

The above production is planned in the procedure described in part III. On the basis of agreements, the executors of the plan are enterprise producers and functional ministries in the area of resource provision.

2. Production of selected products by the processing industries:

- a) regulated consumer articles, quantitative or evaluative formulation in compliance with regulatory principles; addressees: Urząd Gospodarki Materialowej [Material Economy Administration: UGM] for purposes of supply; MHWiU [Ministry of Domestic Trade and Services] as the consumer;
- b) list of standard products not subject to regulation, including medicines in the first place, determined in accord with the possibilities of 1982 after public discussions. The addressees are as above;
- c) export shipments to socialist countries resulting from international agreements, addressed to MHZ [Ministry of Foreign Trade] as the consumer and to UGM for purposes of supply;
- d) export shipments to area II of the most important selected products (MHZ and UGM). Directives are especially necessary where the products may be designated for all three destinations (domestic and exports to payments area I (socialist countries) and payments area II (capitalist countries)).

3. Division of basic raw materials and other materials into three groups:

- a) production of regulated goods and standards; b) production of goods for export according to the nominal lists; c) distribution priorities from the material pool remaining for all other needs, including the social infrastructure.



4. Division of foreign-exchange allotments from the available fund at the disposal of the Ministry of Finance (i.e., with the exception of the foreign-exchange resources remaining in the enterprises according to the self-financing principles). The foreign-exchange allotments should be divided in the NPSG [National Socioeconomic Plan] for the following groups of needs: a) regulated and standard market production, including the purchase of market goods (tea type); b) export production in an area which may not be covered by the system of foreign-exchange self-financing; c) the production of basic raw materials, other materials, fuels, energy (mainly spare parts); d) import of basic materials and other materials divided in the NPSG (including the importation of materials and raw materials for the production of medicines and for the health service). Foreign-exchange allotments for all purposes other than those mentioned above are decided in minimum-maximum scales with a large (safe) span between the amounts. This is necessary under conditions of such great uncertainty regarding the payment balance.

The addressees of the foreign-exchange allotments are the consumer ministries, i.e., MHWIU (market production), MHZ (export production), the Ministry of Health, UGM (import of basic materials), the Ministry of Mining and Power [MGiE] (spare parts and materials). These ministries make allotments to enterprises on the basis of agreements concluded with them.

5. Tasks in the area of development of technology:

--preferred Great Research Problems (governmental and selected crucial problems), tasks in agreement with coordination plans;

--selected technical undertakings for the purpose of reducing the consumption of coal, liquid fuels, power and materials, introduced on a large scale;

--selected technical undertakings on a large scale for the purpose of managing secondary raw materials and raw material substitutes;

--implementation of the manufacture of selected new products of great importance, cost, and requiring the collaboration of several branch-type enterprises (of the type of the new Ursus tractor).

These tasks are addressed to the Ministry of Science, Higher Education and Technology, which transmits them for execution, along with the resources necessary for their execution, to suitable units on the basis of agreements.

6. One element and basis for investment distribution in the directive part of the plan for 1982 is the program to reduce and concentrate the investment front. On this basis the central plan for 1982 defines:

a) the general level of investment outlays assigned, carefully, on the basis of the forecast part of the plan;

b) a nominal list of continued investment tasks, production and nonproduction-type, which must absolutely be achieved at an accelerated rate (of the type of Belchatow and Police). The addressees for these decisions are:

--the investor enterprise,

--the band or budget as the financing unit,

--the Ministry of Construction and UGM to assure supply and performance;

c) allotments of outlays for leading programs, i.e., for:

--the coal mining program; addressee is the Ministry of Mining,

--the agricultural program, addressee BGZ [Food Economy Bank],

--preferred directions in the development of science and technology for which the addressee is the Ministry of Science, Higher Education and Technology. The above allotments also involve the Ministry of Construction and UGM to assure supply and performance;

d) allotments of outlays for individual subsectors with an indication of directions (purposes) for which they can be utilized, namely investments:

--proexport and anti-import;

--market enrichment;

--material saving; allotments addressed to banks which partially assure their financing by credits. Investors in the pertinent field assure supply and performance;

e) nominal list of investment tasks recommended for continuation if

--supply and performance in the pertinent area are assured, and

--they possess their own financial resources; the addressees of this list are: governors, enterprises and also nonproduction-type ministries (health, culture and so forth), which may obtain an additional budget subsidy for this purpose. The prohibition against starting investments beyond the allotments mentioned above in points c) and d) is obligatory in 1982.

7. Displacement of the labor force:

--tasks in the area of assuring a labor force for subsectors requiring it (e.g., mining, power, health service, public transportation, agriculture and so forth) in a regional breakdown;

--these tasks are addressed to the governors who, in agreement with the Ministry of Labor and Wages, labor unions and ministries, set the limits of employment in certain enterprises for the purpose of displacing people to others. The main instruments of economic pressure for layoffs are production agreements (regulated and standard export goods) and allotments for the supply of fuels and materials, coupled with the principle of wage fund self-financing.

### C. Special-Purpose Programs

Comprehensive programs for the development of agriculture and coal mining. In regard to the decisive role of coal and food for 1982, the NPSG for 1982 must be supplemented by a 1982 appendix which will present the total profile of material, organizational and motivational resources which will be applied for the development of these fields, based on a forecast of the effects which can be achieved as early as 1982. By 31 April 1982 [sic] such a program should be developed up to 1985 and presented to the Sejm in different variants of resources which can be allotted to these purposes in the national economy.

### III. Planning Procedure

#### A. General Principles

1. The forecast part of the plan for 1982 should evolve in a totally unregulated way (without instructions) to allow input from experience. Two teams should be appointed to work out two parallel forecasts: one set up on the basis of the Team of Plan Coordination of the KP and another at the Institute of Planning and the Institute of World Economy. Each of these forecast teams, working on the basis of a concept developed by themselves, should make wide use of the experience and knowledge of the branch teams of the KP, and obviously of the RCI [expansion unknown] staffs.

2. The first step in developing the directive part of the plan is KP preparation of variant proposals for solving problems which have particular social urgency. These proposals should be presented to the labor unions for discussion and to the Sejm for decision. This concerns the draft solutions for the questions mentioned below.

--the effect of foreign trade on the domestic consumption of the populace; variants differing in the amount of exports of consumer resources with a demonstration of the effect on imports of raw materials and other materials necessary for the production of consumer resources;

--the range and standards of distribution of regulated consumer goods;

--a list of standard products;

--centrally regulated displacement of the labor force;

--a nominal list of continued sociocultural investments;

--rate and form of execution of residential construction;

--fuel and material supplies for the social infrastructure (community economy, hospitals, urban transportation and so forth).

Decisions of the Sejm concerning the choice of variants to solve the above-mentioned problems constitute the point of departure for the directive part of the plan.

3. Equally weighty elements of the plan, as mentioned above, are decisions pertinent to assuring the production of goods recognized as absolutely necessary for society and the economy, which are:

--basic raw materials and other materials;

--consumer resources under regulation and a list of standard products;

--selected export shipments.

Production of the above-mentioned goods is the only type for which the government guarantees resources. The producers of the mentioned goods (let us call them "basic production") are governed by a special planning procedure based on:

a) The obligation of elaborating variant plan drafts according to the model worked out by the KP. Variant development is based on three planned versions of the amount of production in connection with a corresponding need for resources; models of such a draft variant (we discuss this in more detail in part B of this article) are sent by the KP to the enterprises manufacturing basic production in July.

b) Signing agreements with representatives of the government (these can be, for example, governors, representatives of the domestic and foreign trade ministries), which obliges itself to assure all resources necessary for the manufacture of basic production covered by agreement.

4. Data on agreements signed with the producers of basic production are sent to the KP and are added up there. The sum of the agreements constitutes the verified plan of basic production. This plan can be accepted as real under the condition that the government meets its obligations to supply basic production with resources.

5. Fulfillment of the agreements in the matter of basic production is monitored continuously. Monthly data on this matter are examined by the government, and by the Sejm on a quarterly basis. Interruptions in the fulfillment of the agreements produce changes in the agreements and in this way in the basic production plans.

6. Enterprises which are not manufacturers of basic production do not participate in the plan formation at the KP level. However, all enterprises are obliged to remit information on their plan for 1982 according to a rather brief outline. These data come to the KP with the beginning of 1982 and, after their summation, are used for forecast work.

7. The content of the central plan, the most important special-purpose programs, is developed by the branch ministries themselves. The PK forms special teams to evaluate these programs and the programs, which are the result of a dialogue between the authors and the evaluating teams, become part of the central plan.

B. Individual Specific Procedure for Preparing the Directive Part of the Plan

1. Planning the production of basic extractive raw materials (coal, sulphur, copper, zinc);

a) The KP turns to the mines to prepare a draft plan in three variants;

--Variant I, resources on the 1981 level, what production?

--Variant II, increase in production by 10 percent, what resources?

--Variant III, growth in production by 20 percent, what necessary resources?

b) The mines send their draft plans to both the Planning Commission and the Ministry of Mining and Power.

c) The KP, in agreement with the MGfE, selects the variants from the mine draft plans.

d) The KP sends to the governors proposals for discussion with mines regarding the planned mine production in their area. Within the framework of these discussions, conditions for agreement, specifying the amount of extraction and the quota of resources for this purpose, are established jointly with the functional ministries (KGM [expansion unknown], MHZ, the Ministry of Labor and the Ministry of Finance).

e) Governors sign agreements with mines; these agreements are then signed by representatives of the functional ministries responsible for assuring resources.

2. Planning electrical energy production and the production of other basic raw materials (rolled products, cement, artificial fertilizers, plastics and crude oil refining);

a) The KP turns to the enterprises to prepare a draft plan in three variants:

--Variant I, resources for the 1981 level, what production?

--Variant II, increase in resources by  $x_1$  percent, what production?

--Variant III, increase in resources by  $x_2$  percent, what production?

b) to e) Analogous to planning for basic production of extractive raw materials.

3. Planning the production of regulated consumer resources:

a) The KP with the MHWiU establishes the necessary production quotas in different classifications and the resources necessary for their manufacture according to standards.

b) The KP sends:

--Production tasks to the MHWiU;

--Decisions on the distribution of resources to the functional ministries;

c) Domestic trade enterprises negotiate with producers.

d) Representatives of MHWiU and pertinent functional ministries sign agreements for deliveries of production and for assurance of corresponding resources.

4. Planning the production of standard products not governed by regulation:

a) The KP with the MHWiU establishes the estimated amount of production and the need for resources.

b) The KP notifies:

--the MHWiU of a list of standard products and estimated amounts of production of these products;

--the functional ministries of the estimated need for resources for the production of standard products.

c) Foreign trade enterprises negotiate with potential manufacturers. A guarantee of getting resources should be utilized to induce producers to submit outlay-saving bids.

d) Representatives of domestic trade and of functional ministries assuring resources sign agreements with producers. The agreements pertain to the obligation of delivering definite products and of supplying resources for their production, but the agreements do not define the amount of production and resources (signing an agreement only guarantees obtaining resources, and thus the possibility of production).

5. Planning the production of selected export shipments:

a) The KP with the Ministry of Foreign Trade establishes centrally regulated export shipments and the quota of resources necessary for their fulfillment. These determinations are based on a decision of the Sejm regarding the effect of foreign trade on consumption by the populace (discussed in general principles in the planning procedure). The plan for export shipments must not interfere with the plan for basic production for the needs of the country (points 1 to 4).

b) The KP notifies:

--the MHZ of tasks in the area of export shipments;

--the functional ministries of the amounts of resource allocations necessary to implement these shipments.

c) Representatives of the MHZ and pertinent functional ministries conclude agreements with producers to provide export shipments with suitable resource assurance.

#### 6. Balancing raw materials and basic materials:

a) The KP establishes the assured supply of raw materials and basic materials on the basis of plans for their domestic production (points 1-2), and of assured central imports.

b) The KP establishes the need for materials and raw materials which must absolutely be assured. These are specific resolutions based on technical and economic standards. This planning procedure refers to assuring material supplies for:

--basic production (1-6);

--the agricultural program;

--the social infrastructure (community economy, hospitals, urban transportation and so forth).

All allocations are of a product [goods and services] nature. Their implementation is assured mainly by UGM through the system of agreements between producers and the government, which guarantees to supply raw materials and other materials for the manufacturers of basic production. On the other hand, allocations for the social infrastructure have the nature of organizational-unit [plant and equipment] allotments.

c) The planned supply of raw materials and basic materials (point a) remaining after basic needs are covered (point b) is at the disposal of UGM.

The KP determines the supply preferences in the nature of:

--organizational-unit [plant and equipment] (e.g., craft, bakery) and

--product [goods and services] (e.g., assurance of the coproduction chain).

The UGM distributes the raw materials and other materials in its possession through contractual relations with producers with due regard for the KP preferences and in consultation with the subsector-type ministries which are responsible for the coproduction chain teamwork and for the elimination of bottlenecks.

#### 7. Import Limitation

a) Limitations on foreign-exchange for imports only apply to basic production (understood in the way accepted in this report). The KP with the Ministry of Foreign Trade establishes the need for import shipments by preparing a basic production plan.

b) The MHZ immediately grants allotments to producers in accord with agreements when MHZ representatives have participated in their preparation and signing.

#### 8. Central Tasks in the Area of Development of Technology

a) The KP, with the Ministry of Science and the subsector-type ministries, defines the research problems and technical undertakings which require implementation in 1982 to assure resources, and also establishes the amount of the resources.

b) The KP sends:

--tasks for implementation to the Ministry of Science and

--recommendations for assuring resources to the functional ministries;

--the Ministry of Science concludes agreements with coordinators on research problems and technical undertakings.

In these agreements, the representatives of the functional ministries oblige themselves to provide resources (investments, materials, imports and wages).

#### 9. Investments:

Central determinations in the investment area concern three fields, each of which requires separate treatment:

a) A nominal list of continuing investments is drawn up by a special committee appointed by the KP, consisting of KP workers and experts from outside. The criteria and procedure for selecting investments are narrowly defined. Particularly important is recording the authorship of decisions, professional reports and opinions (investment decisions cannot be anonymous).

This list is the basis for making agreements between KP representatives and an investor enterprise. The KP sends this list to the Ministry of Construction to assure performance and to the NBP [Polish National Bank] to assure financing.

b) Investments stemming from special-purpose programs are established in the procedure anticipated for these programs.

c) Allotments of subbranch-type outlays are determined by the KP using the following principles:

--it determines the joint fund of resources for this purpose;

--it grants this fund to subbranches in proportions corresponding to the ratio of their amortization allowances in 1981;

--it brings allotments to the attention of the NBP, which grants them by the method of credit competition.



10. Displacement of the Labor Force:

a) The KP, with the Ministry of Labor and Wages and the subbranch-type ministries, determines the needs for definite subbranches of the economy for additional employment in 1982. This need is determined in agreement with the voivodships and sent to the governors.

b) The governors prepare, on the above-mentioned basis, a program of displacement in their territory (no need of apartments). Data from the UGM and MHZ on raw materials and import difficulties of individual enterprises are considered in this program.

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END